

LL

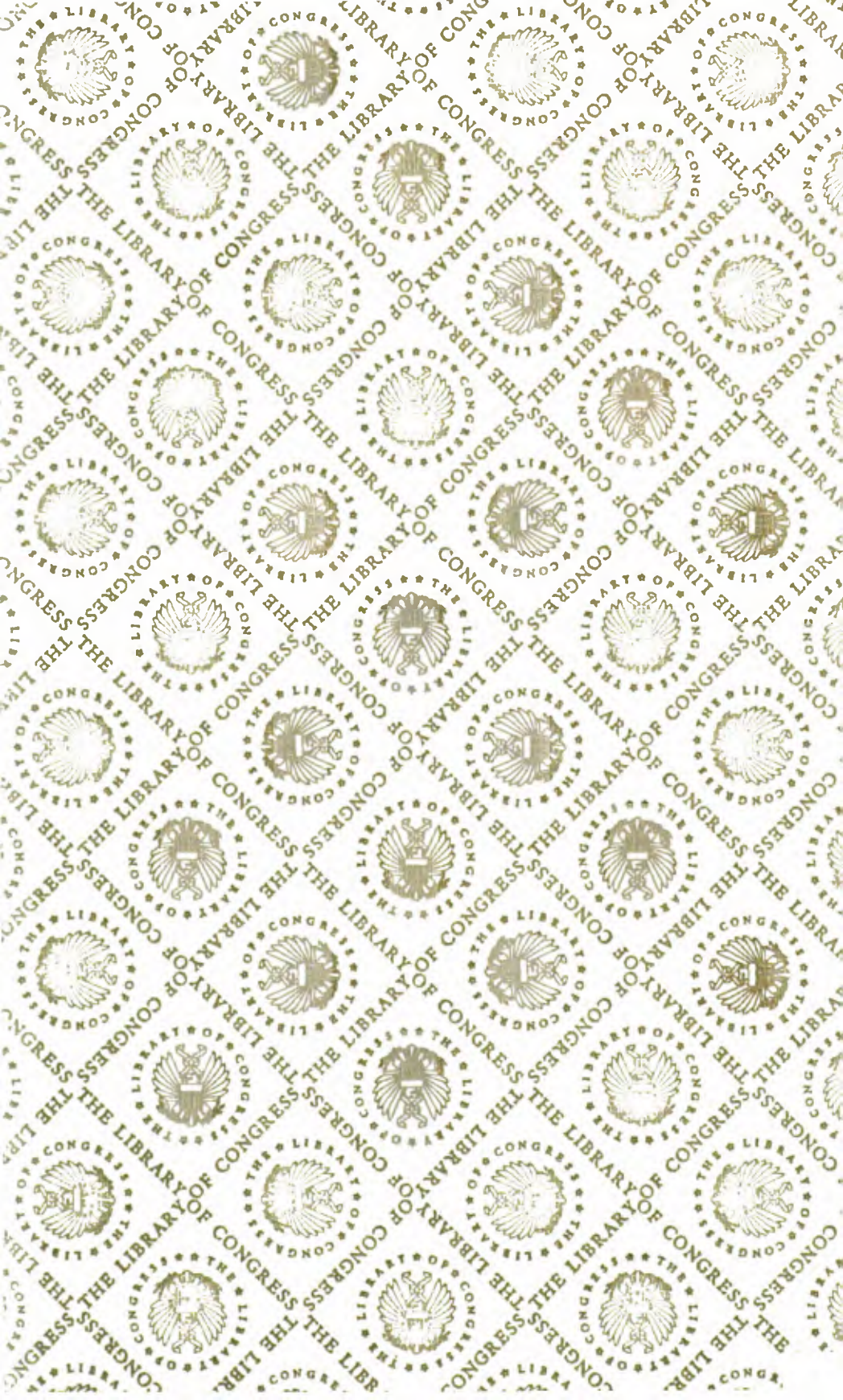
KF 27

.J857

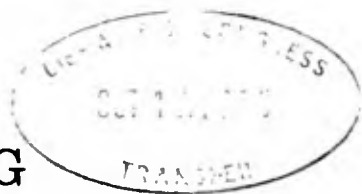
1999d

Copy 1





COLLECTIONS OF INFORMATION ANTIPIRACY ACT



HEARING

BEFORE THE

SUBCOMMITTEE ON COURTS AND INTELLECTUAL
PROPERTY

OF THE

COMMITTEE ON THE JUDICIARY
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

ON

H.R. 354

MARCH 18, 1999

Serial No. 54



Printed for the use of the Committee on the Judiciary

U.S. GOVERNMENT PRINTING OFFICE

62-506

WASHINGTON : 2000

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402

ISBN 0-16-060788-4

COMMITTEE ON THE JUDICIARY

HENRY J. HYDE, Illinois, *Chairman*

F. JAMES SENSENBRENNER, JR.,
Wisconsin

BILL McCOLLUM, Florida

GEORGE W. GEKAS, Pennsylvania

HOWARD COBLE, North Carolina

LAMAR S. SMITH, Texas

ELTON GALLEGLY, California

CHARLES T. CANADY, Florida

BOB GOODLATTE, Virginia

ED BRYANT, Tennessee

STEVE CHABOT, Ohio

BOB BARR, Georgia

WILLIAM L. JENKINS, Tennessee

ASA HUTCHINSON, Arkansas

EDWARD A. PEASE, Indiana

CHRIS CANNON, Utah

JAMES E. ROGAN, California

LINDSEY O. GRAHAM, South Carolina

MARY BONO, California

SPENCER BACHUS, Alabama

JOE SCARBOROUGH, Florida

JOHN CONYERS, JR., Michigan

BARNEY FRANK, Massachusetts

HOWARD L. BERMAN, California

RICK BOUCHER, Virginia

JERROLD NADLER, New York

ROBERT C. SCOTT, Virginia

MELVIN L. WATT, North Carolina

ZOE LOFGREN, California

SHEILA JACKSON LEE, Texas

MAXINE WATERS, California

MARTIN T. MEEHAN, Massachusetts

WILLIAM D. DELAHUNT, Massachusetts

ROBERT WEXLER, Florida

STEVEN R. ROTHMAN, New Jersey

TAMMY BALDWIN, Wisconsin

ANTHONY D. WEINER, New York

THOMAS E. MOONEY, SR., *General Counsel-Chief of Staff*
JULIAN EPSTEIN, *Minority Chief Counsel and Staff Director*

SUBCOMMITTEE ON COURTS AND INTELLECTUAL PROPERTY

HOWARD COBLE, North Carolina, *Chairman*

F. JAMES SENSENBRENNER, JR.,
Wisconsin

ELTON GALLEGLY, California

BOB GOODLATTE, Virginia

WILLIAM L. JENKINS, Tennessee

EDWARD A. PEASE, Indiana

CHRIS CANNON, Utah

JAMES E. ROGAN, California

MARY BONO, California

HOWARD L. BERMAN, California

JOHN CONYERS, JR., Michigan

RICK BOUCHER, Virginia

ZOE LOFGREN, California

WILLIAM D. DELAHUNT, Massachusetts

ROBERT WEXLER, Florida

MITCH GLAZIER, *Chief Counsel*
BLAINE MERRITT, *Counsel*
VINCE GARLOCK, *Counsel*
DEBBIE K. LAMAN, *Counsel*
ROBERT RABEN, *Minority Counsel*
EUNICE GOLDRING, *Staff Assistant*

(II)

LC Control Number



00 329566

1222 4321

KF27
.J857
1999d
copy 1
LL

CONTENTS

HEARING DATE

March 18, 1999	Page 1
----------------------	-----------

TEXT OF BILL

H.R. 354	2
----------------	---

OPENING STATEMENT

Coble, Hon. Howard, a Representative in Congress from the State of North Carolina, and chairman, Subcommittee on Courts and Intellectual Property	1
---	---

WITNESSES

Duncan, Dan, Vice President, Government Affairs, Software & Information Industry Association	165
Henderson, Lynn, President, Doane Agricultural Services Company	177
Kirk, Michael, Executive Director, American Intellectual Property Law Association	147
Lederberg, Joshua, Professor, Sackler Foundation Scholar, The Rockefeller University	81
McDermott, Terrence, Executive Vice President, the National Association of Realtors	60
Neal, James G., Dean, University Libraries, Johns Hopkins University	50
Peters, Marybeth, Register of Copyrights, Copyright Office of the United States, Library of Congress	12
Phelps, Charles, Provost, University of Rochester	152
Pincus, Andrew, General Counsel, United States Department of Commerce	19
Winokur, Marilyn, Executive Vice President, Micromedex, Inc.	64

LETTERS, STATEMENTS, ETC., SUBMITTED FOR THE HEARING

Duncan, Dan, Vice President, Government Affairs, Software & Information Industry Association: Prepared statement	167
Henderson, Lynn, President, Doane Agricultural Services Company: Prepared statement	179
Kirk, Michael, Executive Director, American Intellectual Property Law Association: Prepared statement	148
Lederberg, Joshua, Professor, Sackler Foundation Scholar, The Rockefeller University: Prepared statement	82
McDermott, Terrence, Executive Vice President, the National Association of Realtors: Prepared statement	61
Neal, James G., Dean, University Libraries, Johns Hopkins University: Prepared statement	55
Peters, Marybeth, Register of Copyrights, Copyright Office of the United States, Library of Congress: Prepared statement	14
Phelps, Charles, Provost, University of Rochester: Prepared statement	154
Pincus, Andrew, General Counsel, United States Department of Commerce: Prepared statement	21
Winokur, Marilyn, Executive Vice President, Micromedex, Inc.	66

APPENDIX

Material submitted for the record	205
---	-----

COLLECTIONS OF INFORMATION ANTIPIRACY ACT

THURSDAY, MARCH 18, 1999

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COURTS AND
INTELLECTUAL PROPERTY,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The subcommittee met at 11:05 a.m. in Room 2226 of the Rayburn House Office Building, the Honorable Howard Coble, chairman of the subcommittee, presiding.

Members present. Coble, Sensenbrenner, Goodlatte, Jenkins, Pease, Rogan, Bono, Berman, Lofgren and Delahunt.

Staff present. Majority: Mitch Glazier, Chief Counsel; Vince Garlock, Counsel; Eunice Goldring, Staff Assistant; Minority: Bari Schwartz, Minority Counsel.

OPENING STATEMENT OF CHAIRMAN COBLE

Mr. COBLE. Good morning, ladies and gentlemen. My friend Howard Berman, the ranking member, is on his way. In fact, he has just entered the room so we can continue.

Initially I want to apologize to you all. We tried to have this hearing convened in Room 2141, the home of the full Judiciary committee, but it was already taken by another subcommittee. This is why you all are elbow to elbow today. Hold me harmless for that because we did try to get a larger room.

The Subcommittee on Courts and Intellectual Property will come to order. Today the subcommittee is conducting a legislative hearing on H.R. 354, the Collections of Information Antipiracy Act, which strikes a balance as the information age arrives. The balance provides adequate protection to assure that there is an incentive of companies to invest in the development of collections of information without inhibiting members of the scientific, library and research communities from carrying on their work.

This bill, as a compliment to copyright law, relies on unfair competition principles to prevent a party from misappropriating another's collection of information. In the event a person misappropriates a substantial portion of another's collection of information to the extent it will harm the original collector's ability to compete the misappropriator would be subject to injunction and damages.

This bill is nearly identical to the legislation which passed the House of Representatives not once but twice last year. H.R. 354 differs from last year's legislation in two ways. First, it clarifies that the term of protection for a collection of information is limited to

15 years. Second, the bill adopts fair use language to clarify the permissible uses for scientific, educational and research purposes.

106TH CONGRESS
1ST SESSION

H. R. 354

To amend title 17, United States Code, to provide protection for certain collections of information.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 19, 1999

Mr. COBLE introduced the following bill; which was referred to the Committee on the Judiciary

A BILL

To amend title 17, United States Code, to provide protection for certain collections of information.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Collections of Information Antipiracy Act".

SEC. 2. MISAPPROPRIATION OF COLLECTIONS OF INFORMATION.

Title 17, United States Code, is amended by adding at the end the following new chapter:

"CHAPTER 14—MISAPPROPRIATION OF COLLECTIONS OF INFORMATION

"Sec.

"1401. Definitions.

"1402. Prohibition against misappropriation.

"1403. Permitted acts.

"1404. Exclusions.

"1405. Relationship to other laws.

"1406. Civil remedies.

"1407. Criminal offenses and penalties.

"1408. Limitations on actions.

"§ 1401. Definitions

"As used in this chapter:

"(1) COLLECTION OF INFORMATION.—The term 'collection of information' means information that has been collected and has been organized for the purpose of bringing discrete items of information together in one place or through one source so that users may access them.

"(2) INFORMATION.—The term 'information' means facts, data, works of authorship, or any other intangible material capable of being collected and organized in a systematic way.

"(3) POTENTIAL MARKET.—The term 'potential market' means any market that a person claiming protection under section 1402 has current and demonstrable plans to exploit or that is commonly exploited by persons offering similar products or services incorporating collections of information.

"(4) COMMERCE.—The term 'commerce' means all commerce which may be lawfully regulated by the Congress.

"§ 1402. Prohibition against misappropriation

"Any person who extracts, or uses in commerce, all or a substantial part, measured either quantitatively or qualitatively, of a collection of information gathered, organized, or maintained by another person through the investment of substantial monetary or other resources, so as to cause harm to the actual or potential market

of that other person, or a successor in interest of that other person, for a product or service that incorporates that collection of information and is offered or intended to be offered for sale or otherwise in commerce by that other person, or a successor in interest of that person, shall be liable to that person or successor in interest for the remedies set forth in section 1406.

§ 1403. Permitted acts

"(a) EDUCATIONAL, SCIENTIFIC, RESEARCH, AND ADDITIONAL REASONABLE USES.—

"(1) CERTAIN NONPROFIT EDUCATIONAL, SCIENTIFIC, OR RESEARCH USES.—Notwithstanding section 1402, no person shall be restricted from extracting or using information for nonprofit educational, scientific, or research purposes in a manner that does not harm directly the actual market for the product or service referred to in section 1402.

"(2) ADDITIONAL REASONABLE USES.—

"(A) IN GENERAL.—Notwithstanding section 1402, an individual act of use or extraction of information done for the purpose of illustration, explanation, example, comment, criticism, teaching, research, or analysis, in an amount appropriate and customary for that purpose, is not a violation of this chapter, if it is reasonable under the circumstances. In determining whether such an act is reasonable under the circumstances, the following factors shall be considered:

"(i) The extent to which the use or extraction is commercial or non-profit.

"(ii) The good faith of the person making the use or extraction.

"(iii) The extent to which and the manner in which the portion used or extracted is incorporated into an independent work or collection, and the degree of difference between the collection from which the use or extraction is made and the independent work or collection.

"(iv) Whether the collection from which the use or extraction is made is primarily developed for or marketed to persons engaged in the same field or business as the person making the use or extraction.

In no case shall a use or extraction be permitted under this paragraph if the used or extracted portion is offered or intended to be offered for sale or otherwise in commerce and is likely to serve as a market substitute for all or part of the collection from which the use or extraction is made.

"(B) DEFINITION.—For purposes of this paragraph, the term 'individual act' means an act that is not part of a pattern, system, or repeated practice by the same party, related parties, or parties acting in concert with respect to the same collection of information or a series of related collections of information.

"(b) INDIVIDUAL ITEMS OF INFORMATION AND OTHER INSUBSTANTIAL PARTS.—Nothing in this chapter shall prevent the extraction or use of an individual item of information, or other insubstantial part of a collection of information, in itself. An individual item of information, including a work of authorship, shall not itself be considered a substantial part of a collection of information under section 1402. Nothing in this subsection shall permit the repeated or systematic extraction or use of individual items or insubstantial parts of a collection of information so as to circumvent the prohibition contained in section 1402.

"(c) GATHERING OR USE OF INFORMATION OBTAINED THROUGH OTHER MEANS.—Nothing in this chapter shall restrict any person from independently gathering information or using information obtained by means other than extracting it from a collection of information gathered, organized, or maintained by another person through the investment of substantial monetary or other resources.

"(d) USE OF INFORMATION FOR VERIFICATION.—Nothing in this chapter shall restrict any person from extracting or using a collection of information within any entity or organization, for the sole purpose of verifying the accuracy of information independently gathered, organized, or maintained by that person. Under no circumstances shall the information so used be extracted from the original collection and made available to others in a manner that harms the actual or potential market for the collection of information from which it is extracted or used.

"(e) NEWS REPORTING.—Nothing in this chapter shall restrict any person from extracting or using information for the sole purpose of news reporting, including news gathering, dissemination, and comment, unless the information so extracted or used is time sensitive and has been gathered by a news reporting entity, and the extraction or use is part of a consistent pattern engaged in for the purpose of direct competition.

"(f) **TRANSFER OF COPY.**—Nothing in this chapter shall restrict the owner of a particular lawfully made copy of all or part of a collection of information from selling or otherwise disposing of the possession of that copy.

"§ 1404. Exclusions

"(a) **GOVERNMENT COLLECTIONS OF INFORMATION.**—

"(1) **EXCLUSION.**—Protection under this chapter shall not extend to collections of information gathered, organized, or maintained by or for a government entity, whether Federal, State, or local, including any employee or agent of such entity, or any person exclusively licensed by such entity, within the scope of the employment, agency, or license. Nothing in this subsection shall preclude protection under this chapter for information gathered, organized, or maintained by such an agent or licensee that is not within the scope of such agency or license, or by a Federal or State educational institution in the course of engaging in education or scholarship.

"(2) **EXCEPTION.**—The exclusion under paragraph (1) does not apply to any information required to be collected and disseminated—

"(A) under the Securities Exchange Act of 1934 by a national securities exchange, a registered securities association, or a registered securities information processor, subject to section 1405(g) of this title; or

"(B) under the Commodity Exchange Act by a contract market, subject to section 1405(g) of this title.

"(b) **COMPUTER PROGRAMS.**—

"(1) **PROTECTION NOT EXTENDED.**—Subject to paragraph (2), protection under this chapter shall not extend to computer programs, including, but not limited to, any computer program used in the manufacture, production, operation, or maintenance of a collection of information, or any element of a computer program necessary to its operation.

"(2) **INCORPORATED COLLECTIONS OF INFORMATION.**—A collection of information that is otherwise subject to protection under this chapter is not disqualified from such protection solely because it is incorporated into a computer program.

"(c) **DIGITAL ONLINE COMMUNICATIONS.**—Protection under this chapter shall not extend to a product or service incorporating a collection of information gathered, organized, or maintained to address, route, forward, transmit, or store digital online communications or provide or receive access to connections for digital online communications.

"§ 1405. Relationship to other laws

"(a) **OTHER RIGHTS NOT AFFECTED.**—Subject to subsection (b), nothing in this chapter shall affect rights, limitations, or remedies concerning copyright, or any other rights or obligations relating to information, including laws with respect to patent, trademark, design rights, antitrust, trade secrets, privacy, access to public documents, and the law of contract.

"(b) **PREEMPTION OF STATE LAW.**—On or after the effective date of this chapter, all rights that are equivalent to the rights specified in section 1402 with respect to the subject matter of this chapter shall be governed exclusively by Federal law, and no person is entitled to any equivalent right in such subject matter under the common law or statutes of any State. State laws with respect to trademark, design rights, antitrust, trade secrets, privacy, access to public documents, and the law of contract shall not be deemed to provide equivalent rights for purposes of this subsection.

"(c) **RELATIONSHIP TO COPYRIGHT.**—Protection under this chapter is independent of, and does not affect or enlarge the scope, duration, ownership, or subsistence of, any copyright protection or limitation, including, but not limited to, fair use, in any work of authorship that is contained in or consists in whole or part of a collection of information. This chapter does not provide any greater protection to a work of authorship contained in a collection of information, other than a work that is itself a collection of information, than is available to that work under any other chapter of this title.

"(d) **ANTITRUST.**—Nothing in this chapter shall limit in any way the constraints on the manner in which products and services may be provided to the public that are imposed by Federal and State antitrust laws, including those regarding single suppliers of products and services.

"(e) **LICENSING.**—Nothing in this chapter shall restrict the rights of parties freely to enter into licenses or any other contracts with respect to the use of collections of information.

"(f) **COMMUNICATIONS ACT OF 1934.**—Nothing in this chapter shall affect the operation of the provisions of the Communications Act of 1934 (47 U.S.C. 151 et seq.),

or shall restrict any person from extracting or using subscriber list information, as such term is defined in section 222(f)(3) of the Communications Act of 1934 (47 U.S.C. 222(f)(3)), for the purpose of publishing telephone directories in any format.

"(g) SECURITIES AND COMMODITIES MARKET INFORMATION.—

"(1) FEDERAL AGENCIES AND ACTS.—Nothing in this chapter shall affect—

"(A) the operation of the provisions of the Securities Exchange Act of 1934 (15 U.S.C. 78a et seq.) or the Commodity Exchange Act (7 U.S.C. 1 et seq.);

"(B) the jurisdiction or authority of the Securities and Exchange Commission and the Commodity Futures Trading Commission; or

"(C) the functions and operations of self-regulatory organizations and securities information processors under the provisions of the Securities Exchange Act of 1934 and the rules and regulations thereunder, including making market information available pursuant to the provisions of that Act and the rules and regulations promulgated thereunder.

"(2) PROHIBITION.—Notwithstanding any provision in subsection (a), (b), (c), (d), or (f) of section 1403, nothing in this chapter shall permit the extraction, use, resale, or other disposition of real-time market information except as the Securities Exchange Act of 1934, the Commodity Exchange Act, and the rules and regulations thereunder may otherwise provide. In addition, nothing in subsection (e) of section 1403 shall be construed to permit any person to extract or use real-time market information in a manner that constitutes a market substitute for a real-time market information service (including the real-time systematic updating of or display of a substantial part of market information) provided on a real-time basis.

"(3) DEFINITION.—As used in this subsection, the term 'market information' means information relating to quotations and transactions that is collected, processed, distributed, or published pursuant to the provisions of the Securities Exchange Act of 1934 or by a contract market that is designated by the Commodity Futures Trading Commission pursuant to the Commodity Exchange Act and the rules and regulations thereunder.

"§ 1406. Civil remedies

"(a) CIVIL ACTIONS.—Any person who is injured by a violation of section 1402 may bring a civil action for such a violation in an appropriate United States district court without regard to the amount in controversy, except that any action against a State governmental entity may be brought in any court that has jurisdiction over claims against such entity.

"(b) TEMPORARY AND PERMANENT INJUNCTIONS.—Any court having jurisdiction of a civil action under this section shall have the power to grant temporary and permanent injunctions, according to the principles of equity and upon such terms as the court may deem reasonable, to prevent a violation of section 1402. Any such injunction may be served anywhere in the United States on the person enjoined, and may be enforced by proceedings in contempt or otherwise by any United States district court having jurisdiction over that person.

"(c) IMPOUNDMENT.—At any time while an action under this section is pending, the court may order the impounding, on such terms as it deems reasonable, of all copies of contents of a collection of information extracted or used in violation of section 1402, and of all masters, tapes, disks, diskettes, or other articles by means of which such copies may be reproduced. The court may, as part of a final judgment or decree finding a violation of section 1402, order the remedial modification or destruction of all copies of contents of a collection of information extracted or used in violation of section 1402, and of all masters, tapes, disks, diskettes, or other articles by means of which such copies may be reproduced.

"(d) MONETARY RELIEF.—When a violation of section 1402 has been established in any civil action arising under this section, the plaintiff shall be entitled to recover any damages sustained by the plaintiff and defendant's profits not taken into account in computing the damages sustained by the plaintiff. The court shall assess such profits or damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's gross revenue only and the defendant shall be required to prove all elements of cost or deduction claims. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. The court in its discretion may award reasonable costs and attorney's fees to the prevailing party and shall award such costs and fees where it determines that an action was brought under this chapter in bad faith against a nonprofit educational, scientific, or research institution, library, or

archives, or an employee or agent of such an entity, acting within the scope of his or her employment.

"(e) **REDUCTION OR REMISSION OF MONETARY RELIEF FOR NONPROFIT EDUCATIONAL, SCIENTIFIC, OR RESEARCH INSTITUTIONS.**—The court shall reduce or remit entirely monetary relief under subsection (d) in any case in which a defendant believed and had reasonable grounds for believing that his or her conduct was permissible under this chapter, if the defendant was an employee or agent of a nonprofit educational, scientific, or research institution, library, or archives acting within the scope of his or her employment.

"(f) **ACTIONS AGAINST UNITED STATES GOVERNMENT.**—Subsections (b) and (c) shall not apply to any action against the United States Government.

"(g) **RELIEF AGAINST STATE ENTITIES.**—The relief provided under this section shall be available against a State governmental entity to the extent permitted by applicable law.

***§ 1407. Criminal offenses and penalties**

"(a) **VIOLATION.**—

"(1) **IN GENERAL.**—Any person who violates section 1402 willfully, and—

"(A) does so for direct or indirect commercial advantage or financial gain, or

"(B) causes loss or damage aggregating \$10,000 or more in any 1-year period to the person who gathered, organized, or maintained the information concerned,

shall be punished as provided in subsection (b).

"(2) **INAPPLICABILITY.**—This section shall not apply to an employee or agent of a nonprofit educational, scientific, or research institution, library, or archives acting within the scope of his or her employment.

"(b) **PENALTIES.**—An offense under subsection (a) shall be punishable by a fine of not more than \$250,000 or imprisonment for not more than 5 years, or both. A second or subsequent offense under subsection (a) shall be punishable by a fine of not more than \$500,000 or imprisonment for not more than 10 years, or both.

***§ 1408. Limitations on actions**

"(a) **CRIMINAL PROCEEDINGS.**—No criminal proceeding shall be maintained under this chapter unless it is commenced within three years after the cause of action arises.

"(b) **CIVIL ACTIONS.**—No civil action shall be maintained under this chapter unless it is commenced within three years after the cause of action arises or claim accrues.

"(c) **ADDITIONAL LIMITATION.**—No criminal or civil action shall be maintained under this chapter for the extraction or use of all or a substantial part of a collection of information that occurs more than 15 years after the portion of the collection that is extracted or used was first offered for sale or otherwise in commerce, following the investment of resources that qualified that portion of the collection for protection under this chapter. In no case shall any protection under this chapter resulting from a substantial investment of resources in maintaining a preexisting collection prevent any use or extraction of information from a copy of the preexisting collection after the 15 years have expired with respect to the portion of that preexisting collection that is so used or extracted, and no liability under this chapter shall thereafter attach to such acts of use or extraction."

SEC. 3. CONFORMING AMENDMENTS.

(a) **TABLE OF CHAPTERS.**—The table of chapters for title 17, United States Code, is amended by adding at the end the following:

"14. Misappropriation of Collections of Information

1401".

(b) **DISTRICT COURT JURISDICTION.**—(1) Section 1338 of title 28, United States Code, is amended—

(A) in the section heading by inserting "**misappropriations of collections of information,**" after "**trade-marks,**"; and

(B) by adding at the end the following:

"(d) The district courts shall have original jurisdiction of any civil action arising under chapter 14 of title 17, relating to misappropriation of collections of information. Such jurisdiction shall be exclusive of the courts of the States, except that any action against a State governmental entity may be brought in any court that has jurisdiction over claims against such entity."

(2) The item relating to section 1338 in the table of sections for chapter 85 of title 28, United States Code, is amended by inserting "misappropriations of collections of information," after "trade-marks."

(c) PLACE FOR BRINGING ACTIONS.—(1) Section 1400 of title 28, United States Code, is amended by adding at the end the following:

"(c) Civil actions arising under chapter 14 of title 17, relating to misappropriation of collections of information, may be brought in the district in which the defendant or the defendant's agent resides or may be found."

(2) The section heading for section 1400 of title 28, United States Code, is amended to read as follows:

"§ 1400. Patents and copyrights, mask works, designs, and collections of information".

(3) The item relating to section 1400 in the table of sections at the beginning of chapter 87 of title 28, United States Code, is amended to read as follows:

"1400. Patents and copyrights, mask works, designs, and collections of information."

(d) COURT OF FEDERAL CLAIMS JURISDICTION.—Section 1498(e) of title 28, United States Code, is amended by inserting "and to protections afforded collections of information under chapter 14 of title 17" after "chapter 9 of title 17".

SEC. 4. EFFECTIVE DATE.

(a) IN GENERAL.—This title and the amendments made by this title shall take effect on the date of the enactment of this Act, and shall apply to acts committed on or after that date.

(b) PRIOR ACTS NOT AFFECTED.—No person shall be liable under chapter 14 of title 17, United States Code, as added by section 2 of this Act, for the use of information lawfully extracted from a collection of information prior to the effective date of this Act, by that person or by that person's predecessor in interest.



During today's hearing we will hear from an array of different witnesses, in and out of Government, commercial and non-profit entities, for and against the legislation. We are committed, as we always have been, to listen to any constructive suggestion which leads us to the best possible law for all.

Let me note at this time that we did extend an invitation to commercial entities who have raised concerns about the legislation. Unfortunately, they were not able to produce a witness to be here this morning but it is my understanding they have submitted a statement for the record. I wanted to mention this to you so you'll understand that no one has been shut off from this debate.

I read an article over the holidays which described this legislation as Armageddon and insinuated that we rammed this bill through last year underhandedly and heavy-handedly. Now, I've been accused of having rocks in my head before but I've never been compared to a giant rock which will carelessly wipe out society. [Laughter.]

Mr. COBLE. What the author did not inform the reader was that he represented a client with a position on the bill, that he himself had testified at one of our two hearings we held on the legislation, and that we had considered and adopted some of the amendments he had suggested to us.

I point this out not to provoke a fight but to clarify our work. The way we do business, I have said many times: you don't need a visa to see us. Democrats on the one hand, Republicans on the

other; you all can get through our doors on these intellectual property issues.

Again, I want to reiterate my staff and I, along with other members of the subcommittee, have met with dozens of parties on all sides of these issues and will continue to do so in the future. We have worked arduously to this end: to meet, gather and incorporate as many suggestions in the bill as we feel appropriate. I am committed to doing everything in our power to see that we complete this legislation this year and it is always better when we can do it together.

Now, before I recognize my friend from California let me get something off of my mind. Folks, I am an easy dog to hunt with. With my man of letters over there, I am an easy dog with whom to hunt. [Laughter.]

Mr. COBLE. Mitch Glazier, our chief counsel, met with Mrs. Phyllis Schlafly's executive director regarding Mrs. Schlafly's concern about this bill encouraging the dissemination of private medical records. It is my belief that the bill does not so encourage such dissemination but Mr. Glazier agreed with Mrs. Schlafly's executive director that we would engage in dialogue and try to work this matter out prior to fighting our fights publicly.

Yesterday when I picked up the Washington Times I needed asbestos gloves to handle that radioactive article. Mrs. Schlafly's name appeared thereon and much of that article, my friends, was laced very generously with misinformation, with deception.

I guess what I resent most vividly is the fact that she accused me or she implied that I'm in the pocket of various special interests up here. That's an insult to me and it's an insult to the special interests she mentioned and she owes me an apology. For the record, I am not holding my breath until I get that apology. [Laughter.]

Mr. COBLE. But folks, having said all that, I don't expect everybody to agree with every piece of legislation that surfaces here but we proved last session of Congress that we could work these things out and I'm willing to do this now. But I felt obliged to mention that in case you all read that article yesterday, to know from where I'm coming. And if you didn't read it you may want to forget about it. [Laughter.]

Mr. COBLE. Having said that, I'm pleased to recognize the ranking member, Representative Berman, from California.

Mr. BERMAN. Thank you, Mr. Chairman. Given the choice of siding with you or Phyllis Schlafly—[Laughter.]

Mr. Coble. Would the gentleman yield just a minute? What makes this so ironic is I probably vote identically with the way Ms. Schlafly wants me to vote a hundred percent of the time.

Mr. DELAHUNT. You should reconsider that, Mr. Chairman. [Laughter.]

Mr. COBLE. The gentleman from California.

Mr. BERMAN. Thank you, Mr. Chairman.

This truly is a momentous day. Not only are we having a hearing on one of the most exciting pieces of legislation ever to have been introduced in Congress but we are celebrating the anniversary of the birth of our chairman. I just wanted to have everybody know.

[Applause.]

Mr. COBLE. He hadn't ought to have said that.

Mr. BERMAN. I would sing Happy Birthday except I wouldn't want to be accused of being public funding of the arts. [Laughter.]

Mr. BERMAN. Well, enough of that.

I want to express my appreciation for your leadership in addressing the database protection issue. There is widespread agreement in Congress that this issue deserves our prompt attention. Last year we passed this legislation twice in the House. Since then discussions with those who create databases and those who use databases have led to some significant improvements in the legislation. Most notably, as you mentioned, there is a new provision clarifying what constitutes a permitted act by users of databases for purposes of illustration, explanation, example, comment, criticism, teaching, research or analysis in an amount appropriate and customary for that purpose.

Taking the copyright analogy, the analogy here would be the fair use of protected materials. I support the legislation because I don't like the idea that simply because databases can not be copyrighted creators of databases should live without assurance that as a general matter they will be compensated for their efforts.

That's not to say that I don't have some questions about all the provisions of this bill, or that I don't agree that there remain serious concerns that we need to address. I've heard some of the concerns of the scientific and research communities and believe those concerns merit further discussion. Our hearing will be a major step toward that, I trust.

I understand the administration continues to have concerns which also I think have a great deal of merit to them. However, I recognize that there may be some here today that maintain strongly held views opposing any legislation in this area. They will pick at this provision and that provision and perhaps theoretically acknowledge a need to do something but there is nothing that they are for, and I have to disagree with that position.

I think there are just and good reasons to provide protection from misappropriation to those who make substantial investments in the development of databases. Others have no right to a "free ride" simply because there is a gap in the law. It's not simply that I'm against "free rides," it's that if we just continue to allow "free riding," then the creators of databases won't have the incentive to continue developing these really incredibly important, new and valuable tools for our own societal advancement. And disincentivizing that kind of work is not in our country's interest.

So the concerns that are most meaningful to me, in terms of people's concerns about this bill, are those expressed with an appreciation of the need for Congress to act to protect databases from the inappropriate exploitation.

I think H.R. 354 is a very solid start toward that end and I look forward to hearing the views of each of our witnesses today. I expect that we will start thinking about how to resolve, if we can resolve, any of the differences that remain between those that have an interest in this issue, and I yield back my time.

Thank you, Mr. Chairman.

Mr. COBLE. I thank the gentlemen.

Folks, we have a busy day today. Normally the chairman and the ranking member are the only ones who want to speak but if others have brief opening statements I will recognize them.

Mr. SENSENBRENNER.

Mr. SENSENBRENNER. Mr. Chairman, I won't take very long but I do want to express my best wishes for a very happy birthday for the chairman. He asked for this to happen on his birthday. [Laughter.]

Mr. SENSENBRENNER. So he has no one to blame but himself.

But I also thank you for drawing my attention to the Washington Times article, which I must have missed yesterday. So I'm going to have to take a look at it. [Laughter.]

Mr. COBLE. Thank you, Jim.

The lady from California.

Ms. LOFGREN. I also wish you a happy birthday and thank you for scheduling this hearing early. I think this is important and, as my colleagues know, I have a number of issues that I hope will be considered by this committee. I think we can sort through them. I look forward to hearing those issues addressed. I only hope we can find the time to collaborate and address these issues successfully. I agree that we shall build this year and that will give us enough time to strike a balance.

Thanks again, Mr. Chairman.

Mr. COBLE. I thank the gentlelady. You're right, I think the timing is important. We have a good time frame here in which to work.

The gentleman from Indiana.

Mr. PEASE. Mr. Chairman, I'm more than willing to join in the singing of Happy Birthday, assuming Mr. Berman has paid his ASCAP fees. [Laughter.]

Mr. COBLE. The gentleman from Massachusetts.

Mr. DELAHUNT. Let me add to those happy birthday sentiments and let me just say one thing. Mr. Chairman, any suggestion that you are beholden to any special interest—I want to make a matter of record and a public statement here because I can sense your anger and I'm sure it was justified—is absolutely absurd.

You know, your leadership in this committee during the 105th Congress resulted in legislation that we can all be proud of and you are to be commended for that.

You know, this bill is important not for its benefits to any special interest but because it benefits the American people. And I'm sure we'll hear testimony to that effect. That the maintenance and supporting of databases has led to remarkable advances in the quality of life for the American people. That's really what we are about. This subcommittee historically has been a committee that has worked in a bipartisan fashion and we will continue to do that.

I think it's important to make that statement, put it out there on the record to let everybody know. I know there are some issues here that have to be addressed. We will sort them out and we'll come up with the right conclusion.

Thank you, Mr. Chairman.

Mr. COBLE. Thank you for your generous comments.

I guess one reason why I was so annoyed about the article, it implied not only that I'm on the take, by implication it implied that

the rest of you who support this legislation are as well. And I apologize, folks, if I appeared overly angry but I can't conceal it.

Thank you, Bill, for your good comments.

The gentleman from the Roanoke Valley of Virginia, Mr. Goodlatte.

Mr. GOODLATTE. Mr. Chairman, I just want to apologize for not being here when we all observed the 29th anniversary of your 39th birthday. [Laughter.]

Mr. COBLE. Get him out of here. [Laughter.]

Mr. GOODLATTE. I'll cheer you up in that regard.

And also to observe that obviously the interest in this issue and the work of this committee is not reflective just of the standing room only crowd we have today but we held hearings on encryption a couple of weeks ago and we had the same circumstance. So we may need to let the powers that be know that we need larger hearing rooms for this committee. We're where it's at.

Mr. COBLE. You weren't here when I said this, Bob: we did try to get 2141 but it was already taken.

Mr. DELAHUNT. That was bankruptcy, Mr. Chairman. I happen to serve on that subcommittee too. I chose to be with you today, though. [Laughter.]

Mr. COBLE. The gentleman from East Tennessee, Mr. Jenkins.

Mr. JENKINS. Thank you, Mr. Chairman. Obviously I missed something. I'm sorry. I guess I'll have to ask for a copy of the printed record to catch up here.

I look forward to this hearing today and obviously there's a great deal of interest.

Mr. COBLE. Thank you, Mr. Jenkins.

Since the gentleman from California and the gentleman from Indiana referred to the arts and since Howard mentioned my birthday, I'd be remiss if I didn't mention this—and I'm paraphrasing now, Bill—but the lyrics of the rock and roll song some years ago went thusly: 'Time marches on, time marches on, the young gets old, the old gets old, time marches on'. [Laughter.]

Mr. COBLE. I'm afraid I'm in that latter category.

Folks, bear with us. It's going to be a long day. We have a full calendar of activity on the floor that will commence imminently, if it hasn't already started. I will ask you all, as I have done previously and you all have been very cooperative to this end, when you see that red light illuminate in your eyes you will know that your 5 minutes have elapsed. We're not going to keel-haul anybody for going over that but I urge you when you see that 5 minutes to try to wrap it up because our second panel consists of eight witnesses and it's going to be a long time. We're probably going to be interrupted with votes on the floor, so we do need to finish this today.

I assure you your written testimony will be examined thoroughly and if you can keep your oral testimony within the 5 minute time frame we will be appreciative.

Our first witness will be the Honorable Marybeth Peters who is Register of Copyrights for the United States. She has also served as acting counsel at the Copyright Office and is chief of both the Examining and Information Reference divisions. She has served as a consultant on copyright law to the World Intellectual Property

Organization and authored the general guide to the Copyright Act of 1976.

Our second witness is Mr. Andrew Pincus, who as the general counsel is the chief legal advisor for the Commerce Department. Beyond his legal responsibilities Mr. Pincus also serves as a senior policy advisor for the Secretary and the Department on a broad range of domestic and international issues, including electronic commerce, international trade, telecommunications, intellectual property rights, environmental issues, export controls and technology. Mr. Pincus holds a Bachelor of Arts Degree from Yale College in 1977 where he was graduated cum laude, and a law degree from Columbia University School of Law in 1981, where he was a James Kent scholar, a Harlan Fisk Stone scholar, and Notes and Comments Editor of the Law Review.

Mr. Pincus, we did not receive your written testimony until last night so with your permission we may submit written questions to you in addition to the questions we put to you this morning.

Mr. PINCUS. I'd be pleased to answer them.

Mr. COBLE. Thank you, sir.

The subcommittee has copies of both witnesses testimony. Without objection they will be made a part of the record.

Ms. Peters, you may kick it off.

STATEMENT OF MARYBETH PETERS, REGISTER OF COPYRIGHTS, COPYRIGHT OFFICE OF THE UNITED STATES, LIBRARY OF CONGRESS

Ms. PETERS. Thank you. I also have to start by wishing you a very happy birthday and hope that you have some fun activities planned for later in the day.

Mr. COBLE. This may end up being fun. [Laughter.]

Ms. PETERS. Mr. Chairman, members of the subcommittee, I'm pleased to testify today on the Collections of Information Antipiracy Act.

In October 1997 I testified on a prior version of this bill. At that time I supported the enactment of new Federal protection for collections of information. While recommending further work on certain issues to better calibrate the balance that would maximize the public interest, the Copyright Office remains convinced of the need for legislation and believes that this bill represents substantial progress in achieving that balance.

The Office's support is based on the need to preserve adequate incentives for the production and dissemination of databases which are increasingly important both as a component of electronic commerce and as a tool for scientific, educational and technological development.

In our view there is a gap in legal protection which can not be satisfactorily filled through the use of technology alone. Existing bodies of law for protecting databases are all deficient in some respect. As to copyright, the Supreme Court's decision in *Feist* moves that some of the most investment intensive databases are no longer protected, while those that are receive only a narrow scope of protection. Other bodies of law protect only certain aspects of databases or protect them only in certain circumstances and lack uniformity or certainty.

This legal gap is compounded by the ease and speed with which a database can be copied and disseminated using today's digital and scanning capabilities. Producers are likely to react to their vulnerability by investing less in the production of databases or disseminating them less broadly.

At the same time, because information is essential to the advancement of knowledge and culture, the risks of overprotection are equally serious. It is important not to inhibit or raise the cost of beneficial public interest uses. The ideal scope of protection should result in optimizing the availability of reliable information to the public.

Over the past year and a half considerable evolution has taken place in this bill, refining and clarifying its coverage. Many of the concerns, ours and others, have been addressed or ameliorated. My written statement discusses the changes incorporated in H.R. 354 that we see as most important. I will address only three of these here.

First, with respect to clarifying the boundaries of the prohibition there are three definitions of "collection of information" and "potential market" and there is an exclusion for information used to accomplish digital online communications. These definitions should prevent over-broad applications extending to products outside the standard conception of a database or to all markets that could someday enter. The exclusion for online communications insures that protection does not extend to functional network elements, thereby impeding the operation of the Internet.

Second, with respect to appropriate safeguards for beneficial uses, the exemptions for permitted acts have been expanded in a number of ways. Two are particularly important. The first broadens the exemption for non-profit educational, scientific or research uses to permit such uses as long as they do not directly harm the actual market. This change appropriately limits the liability situation where such uses pose a serious and immediate threat to the producer's investment, such as when a member of the market for which the database is intended downloads it without payment.

The most far-reaching change is the new exception for "additional reasonable uses". The Copyright Office applauds the inclusion of this general flexible exception. Like the Fair Use doctrine of the copyright law it can serve as a safety valve, avoiding an overly strict application of the law. We continue to examine the effectiveness of the precise mix and functions of the elements set out in the exemption.

Third, a definite term of 15 years has been added. The language in this bill makes clear that a new term of protection resulting from the investment in the maintenance of a collection does not extend the term of the preexisting collection. Nevertheless, a practical problem which merits attention remains. How does the user obtain access to the old, preexisting version if the database exists only on line and it's continually updated?

As this important bill moves through the legislative process the Copyright Office would be pleased to assist the subcommittee and its staff in resolving the remaining issues.

Thank you very much.

[The complete statement of Ms. Peters follows.]

PREPARED STATEMENT OF MARYBETH PETERS, REGISTER OF COPYRIGHTS, COPYRIGHT
OFFICE OF THE UNITED STATES, LIBRARY OF CONGRESS

Mr. Chairman, members of the Subcommittee, I am pleased to testify today on the "Collections of Information Antipiracy Act." In October 1997, I testified on a prior version of this bill, H.R. 2652. At that time, I stated the Copyright Office's support for the enactment of new federal protection for collections of information, while identifying some issues with regard to how such protection should be formulated.

The basis for the Office's support was the need to preserve adequate incentives for the production and dissemination of databases, which are increasingly important to the U.S. economy and culture, both as a component in the development of electronic commerce and as a tool for facilitating scientific, educational and technological advancement. In our view, there was a gap in existing legal protection, which could not be satisfactorily filled through the use of technology alone. This legal gap was compounded by the ease and speed with which a database can be copied and disseminated, using today's digital and scanning capabilities. Without legislation to fill the gap, publishers were likely to react to the lack of security by investing less in the production of databases, or disseminating them less broadly. The result would be an overall loss to the public of the benefits of access to the information that would otherwise have been made available.

At the same time, we cautioned that the risks of over-protection were equally serious, since the free flow of information is essential to the advancement of knowledge, technology and culture. We saw the key to legislation as ensuring adequate incentives for investment, without inhibiting access for appropriate purposes and in appropriate circumstances.

Accordingly, the Copyright Office recommended the restoration of the general level of protection provided in the past under copyright "sweat of the brow" theories, but under a suitable Constitutional power, with flexibility built in for uses in the public interest in a manner similar to the function played by fair use in copyright law. Such balanced legislation, we believed, could optimize the availability of reliable information to the public.

As introduced, H.R. 2652 represented a constructive first step toward achieving this result. We recommended further work on the bill's concepts and language, however, in order to resolve continuing concerns and better calibrate the balance needed to maximize the public interest. We identified as requiring particular attention the scope of the permitted acts and exclusions, and the issue of duration.

During the course of consideration of H.R. 2652 in the last Congress, numerous changes were made. As passed by the House, the legislation incorporated several provisions responding to concerns we had identified, as well as many other amendments. H.R. 354 includes all of these changes, plus two other major additions: a clarification of the duration issue and a new exemption embodying certain fair use concepts. Over the course of the past year and a half, substantial progress has been made in developing and refining the coverage of the bill.

The position of the Copyright Office on H.R. 354 can be summarized as follows: We remain convinced that there is a need for new federal legislation to supplement existing law and provide adequate incentives for investments in databases. We are not aware of any changes in law or technology since my 1997 testimony that would warrant rethinking that conclusion.

As to the form that such legislation will take, we continue to prefer the misappropriation approach taken in H.R. 354 to an exclusive property rights model, for the reasons given in my prior testimony (a copy of which is attached). Moreover, in our view, the provisions of H.R. 354 represent a significant improvement over the provisions of H.R. 2652 as introduced. Many of our earlier concerns, and a number of concerns raised by others, have been addressed or ameliorated. Again, however, I stress that the sensitivity and importance of this subject matter demands great care in crafting a statutory balance. Several issues still warrant further analysis, among them the question of possible perpetual protection of regularly updated databases, and the appropriate mix of elements to be considered in establishing the new, fair use-type exemption.

THE THRESHOLD QUESTION: THE NEED FOR LEGISLATION

In formulating our position on H.R. 2652, the Copyright Office considered carefully the threshold question of whether there is a need for new legislation to protect collections of information in the United States. We concluded then that new legislation was desirable, and that judgment still stands.

As explained in more detail in my prior testimony, and in the Office's August 1997 Report on Legal Protection for Databases, existing bodies of law for protecting

databases are all deficient in some respect. As to copyright, the Supreme Court's 1991 decision in *Feist* means that some of the most investment-intensive databases are no longer protected, while those that do embody the requisite minimal creativity are entitled to only a narrow scope of protection. *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340 (1991). Other bodies of law protect only certain aspects of databases, or protect them only in certain circumstances, and lack uniformity or certainty. As a result, database producers are vulnerable to the taking of substantial portions of the fruits of their investment in ways that harm their markets.

Since the 1997 hearing, there has been no change in the courts' interpretation of copyright or other bodies of law that has significantly altered the legal landscape or ameliorated prior judicial applications of *Feist*. The cases that established a narrow scope of protection for databases under copyright law continue to have precedential effect, and to govern the public's understanding of the boundaries of permissible conduct.

During the 105th Congress, this Subcommittee, the Committee on the Judiciary, and the full House of Representatives also recognized the need for legislation, as demonstrated by the passage of H.R. 2652 twice, once as a free-standing bill and once as Title V of H.R. 2281.

THE SUBSTANCE OF H.R. 354

The bill before you today reflects the considerable thought and consultation that went into the evolution of H.R. 2652 in the last Congress. H.R. 354 incorporates the provisions of H.R. 2652 in its ultimate form as it passed the House the second time. Many changes were made in that bill during the course of the legislative process. These changes included adding new definitions; clarifying the core prohibition; amending the "permitted acts"; refining and expanding the exclusions; expanding the savings clauses for other bodies of law; establishing a set term of protection; and providing special protections against monetary or criminal liability for nonprofit institutions. In this Congress, two major changes have been added in H.R. 354 that address core concerns of user communities, one intended to avoid perpetual protection for dynamic databases, and the other to create a flexible defense for fair use-type uses.

I will not describe all of these changes here, but will discuss those the Copyright Office believes to be most important from a public policy perspective: clarification of the boundaries of the prohibited conduct; the coverage of the exceptions or "permitted acts"; addition of savings clauses regarding copyright and antitrust law; duration; and the special protections for nonprofits.

CLARIFYING THE BOUNDARIES OF THE PROHIBITION

As to the bill's general approach, H.R. 354 adopts the same misappropriation model as proposed in H.R. 2652. The Copyright Office continues to favor this approach, because it is more limited in its scope of coverage than an exclusive property rights model, and better tailored to the subject matter and the specific problem that has been identified. In addition, several changes made during the legislative process in the last Congress have clarified the boundaries of the prohibition in a beneficial way.

Most important was the addition of definitions for two of the terms used in the prohibition: "collection of information" and "potential market" (§1401). In my prior testimony, I stated that "additional definitions may be advisable to clarify the scope of the prohibition . . . , but should not be included unless they can shed more light rather than create new ambiguity." These definitions meet that test; they serve to add precision and avoid potential overbreadth.

Definition of "collection of information"

A number of concerns had been expressed about the lack of a definition of "collection of information" in H.R. 2652 as introduced. The concerns centered on the possibility that many items that would not fall within a standard conception of a database might be considered to qualify as a protected collection. A history book or even a novel might qualify, since each collects and brings together facts, ideas and words. Moreover, virtually any material in digital form could be considered a collection of digits. The new definition should rule out the possibility of such overbroad interpretations. It appropriately limits protection to those collections that are made up of items collected and organized "for the purpose of bringing discrete items of information together in one place or through one source so that users may access them." By focusing on the purpose for which information is collected and organized, the definition excludes material brought together in order to communicate a message, tell

a story, or accomplish a result. See H. Rep. No. 105-525, 105th Cong., 2d Sess. 13 (1998).

Definition of "potential market"

In my prior testimony, I supported the use of the term "potential" in delineating what type of market harm should be actionable. I stressed the need to give the term content, however, warning that "[t]he mere possibility that a use could be licensed should not be sufficient, or the term would become circular." I advised that courts could look to the producer's business plans as well as customary industry practices, as they have done under copyright law.

The new definition of "potential" accomplishes just that result. It defines a "potential market" as one which a person has current and demonstrable plans to exploit or that is commonly exploited by persons offering similar products or services incorporating collections of information. The increased certainty provided by statutory language giving guidance to the courts is a positive step.

Exclusion for network functionality

Another important change made during the 105th Congress was the addition of an exclusion barring application of the prohibition to information used to accomplish digital online communications (§ 1404(c)). The Copyright Office supports this exclusion, which should ensure that protection for collections of information will not be extended inappropriately to functional network elements such as domain name tables and interface specifications, and thereby unintentionally impede the development and functioning of the Internet.

APPROPRIATE SAFEGUARDS FOR BENEFICIAL USES

In my prior testimony, I noted the "substantial dangers inherent in establishing legal rights involving the use of facts," and cautioned that "[i]t is important not to inhibit or raise the cost of existing uses in the public interest . . . [and] avoid[] making access for legitimate purposes more difficult or expensive." This was one of the Copyright Office's principal concerns with the bill in its original form: were sufficient safeguards in place to ensure that that beneficial uses could continue unabated? Two expansions of the exceptions or "permitted acts," one made toward the end of the last Congress and one appearing for the first time in H.R. 354, provide important additional safeguards.

Broadening of exception for nonprofit educational, scientific, or research uses

As initially drafted, the exception for nonprofit educational, scientific or research uses served a primarily symbolic value. While its inclusion in the bill constituted a legislative recognition of the value and importance of such uses, the exception was written in such a way as to simply restate in the affirmative that such uses were permitted as long as they did not cause market harm (which would not in any event have violated the prohibition). When H.R. 2652 was incorporated into H.R. 2281, this exception (now § 1403(a)(1)) was broadened to permit such uses as long as they did not *directly* harm the *actual* market—thus ruling out liability for indirect harm, or harm to a potential market.

The Copyright Office supports this change. In our view, it appropriately limits liability for nonprofit public interest uses to the only situations where such uses pose a serious and immediate threat to the producer's investment—i.e., where the user is a member of the market for which the database is produced, and utilizes it without permission or payment. While a producer may need protection against a commercial competitor's preemption of a potential market, such a broad field of application does not seem necessary for nonprofit scientists and scholars.

Addition of a flexible fair use-type exception

The most far-reaching change in the bill, added when H.R. 354 was introduced, is a new exception, entitled "Additional Reasonable Uses" (§ 1403(a)(2)). This section supplements the other, more specific exceptions, with a general, multi-factor balancing test turning on the concept of reasonableness. It permits an individual act of use or extraction of information for purposes of illustration, explanation, example, comment, criticism, teaching, research, or analysis, in an amount appropriate and customary for that purpose, if the act is reasonable under the circumstances. Four factors must be considered in determining reasonableness, relating to the commercial or nonprofit nature of the use or extraction, the defendant's good faith, the extent to which the defendant has added its own investment or creativity, and whether the plaintiff's collection was primarily intended for persons in the same field or business as the defendant. Finally, an outside limit of reasonableness is set: the por-

tion taken from the collection must not be offered or intended to be offered in commerce and likely to serve as a market substitute for the original collection.

This exception has two particularly important applications in supplementing the coverage of the previous set of exceptions: as to nonprofit users, it can provide a defense, even when the activity *directly* harms the *actual* market for the database. In addition, it can provide a defense to commercial ventures for acts going beyond mere insubstantial uses, independent collection, or verification.

The Copyright Office applauds the inclusion of such an exception in the bill. In an area as important and delicate as this, involving legal restrictions on information, we believe the incorporation of a general, flexible defense is a wise policy choice. Like the fair use doctrine of copyright law, this provision can serve as a "safety valve," avoiding an overly strict application of the law with potentially negative consequences. It allows courts to make judgments appropriate to the particular facts and circumstances, and recognizes that some uses should be permitted even if they do not strictly fall within explicit statutory bounds.

In my prior testimony, I described how many of the concepts of copyright fair use are incorporated in various places throughout the bill; this new exception adds another concept from the first fair use factor that did not appear in earlier versions. The authorized purposes all involve activities that build on the contents of an existing collection, and provide the public with new thoughts or insights. In that respect, they are similar to the "transformative" uses favored under fair use. See *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994).

The new exception differs from the structure of copyright fair use, however, in that it is not entirely determined by a balancing of factors. Certain elements are established as prerequisites, such as the authorized purposes and the requirement that the amount be limited to that "appropriate and customary for that purpose." We continue to examine the mix of elements set out in the exception, their functions, and their relation to each other, and would be pleased to work with the Subcommittee on further shaping of the statutory language.

Amendments to other exceptions

Two other "permitted acts" were also modified in positive respects during the 105th Congress. The exception covering individual items and other insubstantial parts was amended by adding a sentence specifying that an individual item of information shall not itself be considered a substantial part of a collection (§1403(b)). This clarification ensures that a single but important item contained in a collection cannot be interpreted to be a qualitatively substantial part of the collection, due to its individual value.

Finally, a concern we had expressed about the news reporting exception has been addressed. The exception now contains a carve-out, barring its application to a consistent pattern of takings of time sensitive information gathered by another news entity, for purposes of direct competition (§1403(e)). This language prevents the possibility that the type of activity held unlawful in *International News Service v. Associated Press*, 248 U.S. 215 (1918), would be sanctioned by the breadth of the exception.

NEW SAVINGS CLAUSES FOR COPYRIGHT AND ANTITRUST LAW

In its original form, H.R. 2652 contained a general provision specifying that it did not affect any rights or obligations under other bodies of law relating to information. During the legislative process, additional provisions were added providing more detail about the relationship of this new protection to such bodies of law, including copyright and antitrust (§1405(c), (d)). The Copyright Office believes these new provisions are an appropriate and useful addition to the bill.

The provision on copyright states explicitly that protection under the new law is independent of copyright, and does not affect any aspect of copyright protection, including limitations on rights such as fair use, in any work of authorship contained in or consisting of a collection of information. The provision further specifies that no greater protection is provided to any work of authorship contained in a collection than would otherwise be available to that work, other than a work that is itself a collection (which by definition would receive the new law's protection against misappropriation). This language should serve to confirm that the scope of copyright protection for compilations or for works of authorship contained in compilations will not change.

The provision on antitrust law makes clear that protection under the new law does not limit in any way the constraints imposed by antitrust laws on the manner in which products or services may be provided to the public, including rules regarding single suppliers of products and services. This language addresses the "sole source" issue that has been raised in the course of debate. See Copyright Office Re-

port on Legal Protection for Databases at 102-107. It ensures that relevant principles of antitrust law continue to apply to producers in governing how they can market databases that are the sole source of information. This provision should assist in preventing information from becoming unavailable to the public. To the extent that antitrust law may not adequately deal with particular conduct, further discussion may be warranted.

DURATION

The second major change incorporated into H.R. 354 relates to the issue of duration. Under H.R. 2652 as introduced, the prohibition had no set term of protection. While this was theoretically consistent with the bill's grounding in misappropriation law, I stated in my prior testimony that further study was needed to determine an appropriate measure for how long the prohibition should last. During the last Congress, a term of fifteen years was added, in the form of a limitation on the period of time during which a lawsuit can be brought.

The Copyright Office supports the addition of such a definite term. Fifteen years of protection provides substantial incentives for investments in collections of information. It also has the advantage of being consistent with the term provided in the European Union, increasing the likelihood of obtaining reciprocal protection in Europe for U.S. database producers. See Copyright Office Report on Legal Protection for Databases at 49; article 10 of Directive 96/9/EC of the European Parliament and of the Council of the European Union of 11 March 1996 on the legal protection of database (attached to Report as Appendix B).

In the amended version of H.R. 2652, the term began to run from the date of the investment that qualified the collection for protection. In H.R. 354, the starting point is instead the date that the portion of the collection extracted or used was first offered in commerce, following the qualifying investment (§1408(c)). In the view of the Copyright Office, this change is an improvement. Investments in producing databases generally take place over a period of time, and it will be difficult to determine the precise point at which the investment became substantial enough to trigger protection. Nor would members of the public have any way to ascertain the status and progress of the producer's internal business activities.

Moreover, under the earlier "date of investment" approach, if further substantial investments were subsequently made before the database was placed on the market, those new investments could trigger additional terms. It is therefore preferable to start the clock running on a date that is clearcut and publicly ascertainable. Again, this approach is consistent with that of the European Union, which measures protection for publicly available databases from the January after the database was first made available to the public. European Directive, art. 10(2).

Even with this new definite term, however, concerns remain about the possibility of effectively perpetual protection. This is because the investment that triggers the prohibition in the bill may consist of maintenance of a pre-existing database. Accordingly, where a database is updated on an ongoing basis, new fifteen-year terms will begin to run whenever the update entails substantial investment and is offered in commerce. In other words, protection may be extended indefinitely.

A new sentence was added in H.R. 354 to deal with this potential problem. It distinguishes between protection for the pre-existing database and protection for the updated version, clarifying that the fact that an investment in maintenance has resulted in a new fifteen-year term does not extend or renew protection for the pre-existing database itself. The public remains free to extract or use information from the pre-existing collection despite the continued protection for the later, updated version.

In our view, this sentence helps to avoid the specter of perpetual protection. It makes clear that the version of the database that has already been protected for a full fifteen-year term does not continue to be protected because of subsequent investments. Nevertheless, it does not completely resolve the issue. A practical problem remains: how does the user obtain access to the pre-existing version that can theoretically be freely used under the bill? If the database is in hard copy form, there may be no problem; the user can, for example, go to the library and use an old casebook. But if the hard copy is no longer available, or if the database exists only on-line and is constantly updated, it may be impossible to find and use a copy of the no-longer protected version. As a result, although protection is not perpetual in theory, it may be as a matter of reality.

The Copyright Office believes this issue merits further attention. During discussions in the Senate Judiciary Committee in the fall of 1998, consideration was given to the possibility of establishing a deposit system within the Copyright Office, in order to create a public record of databases for which protection has expired. While

such a deposit system could be burdensome, and may have drawbacks as well as benefits, we are ready to work with the Subcommittee to examine this and alternative solutions.

ADDITIONAL PROTECTIONS FOR NONPROFIT INSTITUTIONS

Three provisions were added to H.R. 2652 that further insulate nonprofit educational, scientific or research institutions, and libraries or archives, from inappropriate or disproportionate liability:

1. *Inapplicability of criminal provisions (§ 1407(a)(3)).* Criminal penalties are not available against employees or agents of such institutions, when acting within the scope of their employment.

2. *Remission of damages (§ 1406(e)).* Courts must reduce or remit entirely monetary relief if the defendant is an employee or agent of such an institution, who believed and had reasonable grounds for believing that the conduct was permissible.

3. *Deterrent against frivolous lawsuits (§ 1406(d)).* If an action is brought in bad faith against such an institution, or its employee or agent, courts are required to award costs and attorneys' fees to the defendant.

These provisions should go a long way toward ameliorating any possible chilling effect on nonprofits' activities. A nonprofit institution acting in good faith, with the belief that it is engaging in permissible conduct, will run little risk of substantial penalties other than an injunction. And a database producer will have to think carefully about the grounds for a lawsuit, or be subject to potentially serious financial consequences.

CONCLUSION

H.R. 354 would establish consistent nationwide incentives for investments in collections of information, filling the gap left in the law in the wake of *Feist*. The bill represents substantial progress in legislative thinking, incorporating many positive evolutions from the initial form of its predecessor bill in the last Congress. These changes have added greater clarity and balance. The Copyright Office would be pleased to work with the Subcommittee to resolve remaining issues and concerns.

Mr. COBLE. Thank you, Ms. Peters.

Mr. Pincus, I inadvertently failed to advise the audience that you are with the Commerce Department. I think we all know that. Glad to have you with us.

Mr. PINCUS. Thank you, Mr. Chairman. It's an honor to appear before you today and also to be able to wish you a happy birthday.

Mr. COBLE. Thank you, sir.

STATEMENT OF ANDREW PINCUS, GENERAL COUNSEL, UNITED STATES DEPARTMENT OF COMMERCE

Mr. PINCUS. In the last Congress you and the other members of the subcommittee were responsible for a truly momentous accomplishment, enactment of the Digital Millennium Copyright Act. Under Secretary Daley's leadership, we in the Commerce Department were privileged to work with you on that important legislation and we're looking forward in this Congress to working with you on this legislation and the other matters in which we have a common interest.

The issue of database protection is a matter of great interest to a large number of Federal agencies for a variety of reasons. The Government collects, manages and disseminates large amounts of information, perhaps more than any entity in the world. We fund research that produces information. We are very concerned and eager to continue the tremendous economic growth that we've experienced.

In our knowledge based economy information is key. We therefore want to maximize incentives for data collection to expand the available universe of information without putting in place unjusti-

fied obstacles to competition and innovation. And of course we want to be sure that any law enacted complies with the Constitution.

We spent a great deal of time developing an administration position that takes account of these varied perspectives. I'm afraid it's somewhat lengthy and I appreciate your making my full testimony part of the record, and I'll summarize the key parts this morning.

First, after exhaustive analysis we've concluded that there is a gap in the law that must be filled by new legislation. We support the enactment of a statute to protect database creators against free riding, the wrongful taking and distribution of database material with resulting infliction of commercial harm on the database creator.

Digital technology permits the creation and distribution of a large number of perfect copies of data files at the touch of a button and therefore expands dramatically the risk that in the absence of adequate legal remedies piracy or the threat of piracy will deter investment in database creation.

Indeed, we believe, speaking to a lot of the affected interest groups, that there is considerable, if not complete consensus that additional legal protection is necessary to prevent a diminution in database creation. Of course it's important to craft this legal protection carefully to optimize the overall benefits and minimize disruption of research activities and prevent stunting of competition and innovation. I know the subcommittee is very sensitive to these concerns and we're very appreciative of the changes reflecting the differences between the bill before you this year and the bill passed by the House last year which respond to a number of these matters.

My written testimony comments in detail on a number of provisions of the bill. Let me just mention a few key points.

With respect to section 1402, which defines the conduct that may give rise to liability, we believe it is appropriate to narrow the prohibition to target more closely the troubling acts of misappropriation identified in Warren Publishing and similar cases. We therefore urge the subcommittee to focus on distribution and extraction for distribution as the wrongful conduct rather than on simple extraction for use.

Second, we urge the subcommittee to require substantial harm rather than just harm in order to be sure that de minimis activities will be shielded against liability.

We urge the subcommittee to reexamine the concepts of "actual" and "potential" market and consider instead a market definition tied to the product's actual customer base or the market currently exploited by similar products and services to avoid an over broad definition of the market that might limit transformative uses and other innovation and might restrict competition.

With respect to Government data, we agree with you that Government investment in generating data generally should not be protected. We suggest that the exclusion contained in section 1404 be broadened to more clearly encompass data gathering funded by the Government.

There also is some concern that Government data might be captured by private database producers and we provide some suggestions in the testimony for addressing that potential problem.

We also want to be sure that H.R. 354's fixed protection term of 15 years can not be circumvented to provide perpetual protection for a database. I know that you are as concerned as we are that you sought to avoid this possibility by including an expressed prohibition against perpetual protection in section 1408. We suggest that the subcommittee address this issue by eliminating "maintaining" and "organizing" as bases for statutory protection.

The "sweat of the brow" doctrine that the Supreme Court rejected in its *Feist* decision protected industrious collection. We think that a statutory provision that protects either gathering or collecting would more closely replicate the pre-*Feist* protection as well as avoid the possibility that minor acts of maintenance might restart the 15 year clock.

Finally, with respect to the permitted use provision, we suggest a number of changes to make clear that judges will have flexibility equivalent to that under the Copyright Act to insure that liability is not imposed for protected uses of data.

Thank you again for the opportunity to testify today and I look forward to answering your questions and working with you as the legislation moves through the process.

[The complete statement of Mr. Pincus follows.]

PREPARED STATEMENT OF ANDREW PINCUS, GENERAL COUNSEL, UNITED STATES
DEPARTMENT OF COMMERCE

Mr. Chairman and Members of the Committee:

Thank you for this opportunity to present the Administration's views on H.R. 354, the "Collections of Information Antipiracy Act."

I. INTRODUCTION

The Administration views database protection legislation from a number of perspectives: as a creator of data and a user of it; as an advocate of both economic incentives for socially useful investment and open, market-based competition free from artificial barriers; and as an entity committed both to effective law enforcement and to the First Amendment. Reconciling these perspectives is difficult in any context. The digital economy's rapid and unpredictable change makes this challenge even greater.

The Administration believes strongly in free markets, in which firms can meet demand for new products and services without having to overcome artificial barriers that keep consumers hostage to an undesirable status quo. However, we also recognize that there are circumstances in which markets need legal mechanisms in order to function efficiently. The *Feist* decision¹ conclusively eliminated one form of legal protection for databases. Undeniably, *Feist* has altered the landscape, but the topography is still changing in ways that pull in different directions as to the nature and extent of protection that is needed.

In particular, the emerging digital environment has significant implications for this issue. It has become commonplace to observe that information is the currency of our economic age. That puts a premium on designing a legal schema that creates sufficient incentives to maximize investment in data collection—to expand the available universe of information—without putting in place unjustified obstacles to competition and innovation. Moreover, digital technology permits the creation and distribution of a large number of perfect copies of data files at the touch of a button and therefore expands dramatically the risk that, in the absence of adequate legal remedies, piracy, or the threat of piracy, will deter investment in database creation. For all of these reasons, it is important to calibrate new private rights carefully—to optimize overall economic and social benefits, to prevent unfairly undermining investments and agreements premised on the current law, and to preclude new opportunities for thwarting competition.

The U.S. Government has a unique stake in database legislation because it collects, manages, and disseminates massive amounts of information, possibly more in-

¹ *Feist Publications v. Rural Telephone Service Corp.*, 499 U.S. 340 (1991).

formation than any other entity in the world. In all these processes, it interacts with the private sector in a variety of ways. In addition, federal agencies are engaged in funding research that produces tremendous amounts of information that the government does not undertake to manage itself.

These activities represent enormous investments in highly complex knowledge management processes that are vital to human health, the environment, national security, scientific progress, and technological innovation—and, in turn, to the economy as a whole. Changes in ground rules for the use and reuse of information must be designed to minimize disruption of these critical activities and to avoid imposition of new costs that could hinder research.

The sections which follow discuss the Administration's efforts to study database protection and access issues (Part II) and summarize the six principles that we believe should guide both domestic legislative and international treaty efforts in this area (Part III). Next, we elaborate on each principle, discussing the Administration's concerns relating to that topic and the range of possible solutions on which we believe interested parties should focus (Part IV). Finally, we offer some additional points that should be included in any database protection legislation.

II. HISTORY OF ADMINISTRATION STUDY OF DATABASE ISSUES

In response to legislative proposals in Congress and developments in the World Intellectual Property Organization (WIPO), the Administration devoted substantial energy in 1998 and 1999 to studying database protection and access issues. The Administration's review of these issues has included a variety of mechanisms and fora:

- The Patent and Trademark Office (PTO) held a public conference on database protection and access issues on April 28, 1998.
- During the spring and summer of 1998, a variety of Executive Branch departments and agencies participated in an informal working group on database issues led by the State Department, the Office of Science and Technology Policy (OSTP), and the PTO.
- In January 1999, the National Research Council held a two day conference on scientific databases at the Department of Commerce. This conference was supported by the National Science Foundation, the National Institutes for Health, and several other agencies.²
- Various officials in the Executive Office of the President (including OSTP), the Department of Commerce (including PTO), and the Justice Department have held informational meetings with both proponents and opponents of database protection legislation.

In addition to these efforts, the Administration has carefully studied a wide range of reports, studies, legal opinions and legislation on database protection and access from the United States, Canada, Japan, and the European Union, as well as participating in discussions of database protection issues at WIPO conferences in 1996, 1997, and 1998.

The Administration continues to discuss these issues with concerned parties and to examine specific topics and areas where we believe further information will help both the legislative process and any future study of the effects of database protection that might be mandated by legislation.

III. GENERAL PRINCIPLES

On August 4, 1998, in response to Senate consideration of then-H.R. 2652, the Administration set out the principles that it believes should govern database protection legislation.

Now, as then, Administration supports legal protection against commercial misappropriation of collections of information. We believe that there should be effective legal remedies against "free-riders" who take databases gathered by others at considerable expense and reintroduce them into commerce as their own. This situation has arisen in recent case law, and we believe that digital technology increases opportunities for such abuses.

At the same time, the Administration's concerns with the provisions of H.R. 354 are similar to those we expressed with respect to H.R. 2652, including the concern that the Constitution imposes significant constraints upon Congress's power to enact legislation of this sort. From a policy perspective, the Administration believes that

² Including the National Oceanic and Atmospheric Administration (NOAA), the National Institute of Standards and Technology (NIST), the U.S. Geological Survey, the Department of Energy, and the PTO.

legislation addressing collections of information should be crafted with the following principles in mind:

1. A change in the law is desirable to protect commercial database developers from commercial misappropriation of their database products where other legal protections and remedies are inadequate.
2. Because any database misappropriation regime will have effects on electronic commerce, any such law should be predictable, simple, minimal, transparent, and based on rough consensus in keeping with the principles expressed in the Framework for Global Electronic Commerce. Definitions and standards of behavior should be reasonably clear to data producers and users prior to the development of a substantial body of case law.
3. Consistent with Administration policies expressed in relevant Office of Management and Budget circulars and federal regulations, databases generated with Government funding generally should not be placed under exclusive control, *de jure* or *de facto*, of private parties.
4. Any database misappropriation regime must carefully define and describe the protected interests and prohibited activities, so as to avoid unintended consequences; legislation should not affect established contractual relationships and should apply only prospectively and with reasonable notice.
5. Any database misappropriation regime should provide exceptions analogous to "fair use" principles of copyright law; in particular, any effects on non-commercial research should be *de minimis*.
6. Consistent with the goals of the World Trade Organization (WTO) and U.S. trade policy, legislation should aim to ensure that U.S. companies enjoy available protection for their database products in other countries on the same terms as enjoyed by nationals of those countries.

With these principles in mind, we turn to an analysis of H.R. 354.

IV. DISCUSSION

G. First Principle—Protect against commercial misappropriation

A change in the law is desirable to protect commercial database developers from commercial misappropriation of their database products where other legal protections and remedies are inadequate.

The Administration supports enactment of a statute to protect database creators against free-riding—the wrongful taking and distribution of database material with resulting infliction of commercial harm (loss of customers) on the database creator. Indeed, there is considerable, if not complete, consensus that this kind of free-riding can occur without additional legal protection for non-copyrightable databases and that such legal protection is necessary to prevent a diminution in database creation.³

Section 1402 is the operative core of H.R. 354, providing the "basic prohibition" of this proposal to protect collections of information through a misappropriation model.⁴ Section 1402 prohibits unauthorized commercial misappropriation of a sub-

³ See, e.g., National Research Council, *Bits of Power* (1997) at 135; U.S. Patent and Trademark Office, *Report on and Recommendations from April 1998 Conference on Database Protection* (1998) at 4-7; Letter from Federal Trade Commission Chairman Robert Pitofsky to Congressman Tom Bliley, September 28, 1998 at 6-7. See also Institute of Intellectual Property, Tokyo, Japan, *Database Protection on the Borderline of Copyright Law and Industrial Property Law* 5 (1998); Wendy Gordon, *Asymmetrical Market Failure and Prisoner's Dilemma in Intellectual Property*, 17 U. DAYTON L. REV. 853, 863-865 (1992) (describing conditions when additional protection is needed); Dan L. Burke, *The Market for Digital Piracy*, in BRIAN KAHN and CHARLES NESSON, EDS., *BORDERS IN CYBERSPACE* (1997), 205 (describing databases on the Internet as classic "public good" problem that may require special law); J.H. Reichman and Pamela Samuelson, *Intellectual Property Rights in Data?*, 50 VANDERBILT L. REV. 51, 55 (1997) (critical of EU Database Directive and H.R. 3531, but recognizing that risks of market failure may keep data production at "suboptimal levels"); M. Powell, *The European Database Directive: An International Antidote to the Side Effects of Feist?* 20 FORDHAM INTERNATIONAL L. J. 1215, 1250 (1997).

⁴ There has been much discussion among commentators about the differences between a *sui generis* form of protection as was proposed in H.R. 3531 in the 104th Congress and the "misappropriation" approach proposed in the present H.R. 354. The Administration believes that the misappropriation theory provides an appropriate model for database protection in American law. The United States has substantial case law on the misappropriation of information as a form of unfair competition which should help courts interpret any database protection law built on a misappropriation model. Placing database protection in the framework of unfair competition

Continued

stantial amount of a database; it also appears to prohibit unauthorized extraction or "use" of data from a database by an individual, no matter how the information is used.

We do not believe that protection of that breadth is appropriate in the database context. As a policy matter, we must weigh the need to protect database creators against the potential impact on scientific research in particular, and the dissemination of information within the society generally. It therefore makes sense to focus any prohibition on the precise activities that pose the commercial threat—"use" is simply too broad and ambiguous.⁵ Indeed, the breadth and ambiguity of the prohibition has required concerned parties to focus considerable attention on expanding the list of statutory exceptions to make clear that various activities would not be affected by the prohibition. We believe it more appropriate to narrow the prohibition so it is targeted on conduct like the troubling acts of commercial misappropriation identified in the Warren Publishing and similar cases.⁶

H.R. 354's basic prohibition consists of three basic elements; imposing liability on any person who "extracts or uses in commerce" all or a substantial part of a database so as to cause "harm" to the "actual or potential market" of the database creator. In our view, all three of these elements should be focused more precisely on the commercial free-riding situation.

To begin with, the "extract[s] or use[s]" language should be narrowed. One approach would be to limit the reach to a person who, without authorization "extracts for commercial distribution or distributes in commerce" all or a substantial part of a database. The substitution of "distribution" in place of "use" would clarify that the Act is directed at active behavior, rather than receptive activities such as viewing, reading, or analyzing. "Extracts for commercial distribution" would cover any replication preparatory to distribution in commerce. Distributes in commerce should be understood broadly, compatible with First Amendment concerns.

While the Administration continues to believe that misappropriation for commercial purposes should be the focus of any legislative efforts, we recognize that, when systematic, some acts that might be characterized as "extraction" (in other words, acts of duplication) by individuals could conceivably undermine the commercial market for a database product. We are not familiar with any reported cases or incidents of this kind, but we recognize that such harm could occur. Such damage may occur when those acts become customary in a particular economic sector or field of research. At present, if there is no contract with the individual or his/her organization, the investor in a database has no effective civil remedy against such acts.⁷ We believe that one of the greatest challenges in drafting database protection legislation is providing database producers with some type of protection against such patterns of repeated individual activity without prohibiting uses of data by individuals that most people believe should be treated as "fair uses" and without violating the First Amendment. We are not certain whether a balance can be struck. Our suggested

will also allow courts and commentators to draw appropriately from the rich body of cases in trademark law and unfair business practices.

The Administration believes that any treaty on database protection that emerges from ongoing discussions at the World Intellectual Property Organization should permit each treaty signatory to provide any mandated database property protection through the legal mechanism most appropriate to its domestic law, whether through misappropriation, *sui generis* protection, or a simple extension of their domestic copyright and neighboring rights laws. The critical issue is not the legal framework used, but whether the law provides private citizens with comparable rights to protect their investments in different jurisdictions.

⁵In contrast, the basic prohibition in what some have called the "minimalist" proposal put forward by some database users seems too narrow as a policy matter. See Section 1401 of "Proposed Bill to Amend Title 17, United States Code, To Promote Research and Fair Competition in the Databases Industry," Statement by Senator Orrin Hatch, *Congressional Record*, January 19, 1999, at S320. This minimalist basic prohibition appears to bar only misappropriation of an entire database, but to permit appropriation of a large percentage of the same database, even for a commercial purpose in competition with the database creator. There are also constitutional concerns with the minimalist approach, albeit not as serious as with H.R. 354.

⁶*Warren Publishing v. Microdos Data Inc.*, 115 F.3d 1509 (11th Cir. 1997) (en banc cert. denied 118 S.Ct. 197 (1997)).

⁷18 U.S.C. §1030 would appear to create some criminal liability for database misappropriation by individuals in the on-line environment. Subsection 1030(a)(2)(C) creates criminal liability when a person "intentionally accesses a computer . . . and thereby obtains . . . information from an protected computer if the conduct involved an interstate or foreign communication," while 1030(a)(4) creates criminal liability when a person "knowingly and with intent to defraud, accesses a protected computer without authorization . . . and by means of such conduct . . . obtains anything of value" in excess of \$5,000. We assume that the server holding a commercial database would fall within the definition of a "protected computer" because it would be "a computer . . . which is used in interstate or foreign commerce or communication [1030(e) (2)(B)]. Subsection 1030(g) also creates civil liability where there has been a 'violation' of the section.

language concerning "extraction for distribution" and "distribution" does not address this issue; we look forward to working with the Subcommittee on this matter as the legislation moves forward.

Second, the Subcommittee should consider whether the requirement of "harm" in section 1402 should be elevated to "substantial harm" as a means of shielding *de minimis* activities from any possible liability. We know that some proponents of H.R. 354 have expressed concern about a "substantial harm" standard because they believe that judges would compare the standard unfavorably to copyright law, which requires only "harm." We agree that it is important to anticipate how judges would administer any new law, but we believe that a "substantial harm" standard is familiar to courts from other areas of American law.⁸ Appropriate legislative history could direct judges away from unintended comparisons to copyright law or areas of the law where "substantial harm" has been interpreted to impose a higher standard than intended in this bill.

At the same time, some critics of H.R. 354 have suggested that the proper trigger for liability is whether the misappropriation "so reduce[s] the incentive to produce the product or service that its existence or quality would be substantially threatened," a test from the *National Basketball Association v. Motorola* case.⁹ While we agree that a misappropriation law should be focused on acts that do, in fact, have a tendency to reduce incentives in this manner, we think this "diminution of incentive" test is ill-suited as a component of the basic prohibition; it does not comport with the Administration's principle (described below) that a database protection law should be predictable, simple, and transparent. Because a database user cannot be expected to know much about the incentive structures that lead to production of databases, such a user would have no way to judge in advance whether or not her acts would satisfy a "diminution of incentive" test for liability. We also are concerned that the "diminution of incentive" test requires much more complicated proofs than would be incurred with a harm test.¹⁰ Accordingly, we believe that Congress should instead rely upon a "substantial harm" test or similar measure to serve as a workable proxy for the "diminution of incentive" test.

Third, we suggest reexamination of the concepts of "actual" and "potential" market. We are very concerned that, as presently drafted, these concepts are broader than market definitions used in other areas of the law, could be subject to manipulation by private entities, and could too easily expose legitimate business practices to substantial liability. We urge the Subcommittee to consider an objective definition tied to the product's current actual customer base or the market currently exploited by similar products or services. We are concerned that any broader definition might deter entrepreneurs from developing new products and services that add significant value and do not compete directly with the original database. Leaving room for transformative uses is critical in shaping the definition of the market as targeting the free-riding we wish to prohibit. We believe that the Subcommittee should consider, individually and perhaps in combination, the notions of "principal market" drawn from unfair competition law, and "neighboring market" proposed in the Senator Hatch draft.

The Department of Justice notes that this legislation raises serious constitutional concerns that current copyright law does not raise. The Constitution itself provides for protection of copyright, in order to promote progress in science and the arts. Therefore, copyright and the First Amendment are intended to protect analogous values, and are aimed, in part, at similar and compatible objectives. The Copyright Clause and the Copyright Act permit protection only of an author's original expression, and do not authorize protection of facts. This comports with First Amendment

⁸ Substantial harm is a familiar standard applied by courts in a variety of circumstances. See, e.g., *Gulf & Western Industries, Inc. v. United States*, 615 F.2d 527 (D.C. Cir. 1979) (enunciating standard for when disclosure of commercial information in government's possession would cause substantial harm to competitive position of private firm); *Miami Herald v. SBA*, 670 F.2d 610 (6th Cir. 1982) (same standard); *Simmons v. Diamond Shamrock Corp.*, 844 F.2d 517 (8th Cir. 1988) (determining whether failure to comply with ERISA reporting and disclosure requirements caused substantial harm); *Warner Bros. v. U.S. ITC*, 787 F.2d 562 (Fed. Cir. 1986) (ITC temporary exclusion order depends on showing of immediate and substantial harm in the absence of such relief); *Olson v. Stotts*, 9 F.3d 1475 (10th Cir. 1993) (substantial harm standard used for liability in delay in medical care) . . . not to mention the use of "substantial harm" as a standard in preliminary injunction cases. See, e.g., *N.A.A.C.P. v. City of Mansfield*, 866 F.2d 162, 166 (6th Cir. 1988).

⁹ 105 F.3d 841, 852 (2d Cir. 1997)

¹⁰ Evidence that the defendant had not diminished the plaintiff's incentive to produce the database could, however, be the same type of evidence that shows how "transformative" the defendant's product is and how far its sales are from the original product's market. In this way, the same evidence might enter a litigation under an appropriately broad "permitted uses" section.

principles. By contrast, the proposed prohibition in H.R. 354 would be directed against dissemination of facts. That measure as currently drafted likely would not survive constitutional scrutiny, at least in numerous applications. The constitutional concerns are related to the scope of the basic prohibition, discussed above, as well as the issues discussed below, including the range of permitted uses, resolution of the "perpetual protection" problem and the possibility of "sole source" situations, but the constitutionality of any law in this area will depend upon the particular statutory language adopted and therefore cannot be analyzed definitively at this time. We look forward to working with the Subcommittee to avoid constitutional infirmity.

B. Second Principle—Keep it simple, transparent, and based on consensus

Because any database misappropriation regime will have effects on electronic commerce, any such law should be predictable, simple, minimal, transparent, and based on rough consensus in keeping with the principles expressed in the Framework for Global Electronic Commerce.¹¹ Definitions and standards of behavior should be reasonably clear to data producers and users prior to the development of a substantial body of case law.

This principle informs all of our analysis. We believe that database legislation should be directed squarely at behavior that is widely acknowledged to be unfair and has been documented as a problem worthy of a legislative response. This will ensure that the legal system is not used to threaten litigation in borderline cases in a manner that may inhibit the flow of factual information and the vigor of free market competition.

We also believe that in introducing this new form of protection, some of the burden of promoting transparency and predictability should be borne by those who benefit. The legislation should not create an environment in which many kinds of database users must suddenly act at their peril. In particular, the Subcommittee might consider how a notice system could effectively warn database users when a database producer is asserting protection under the law. This will also help reduce the costs of identifying multiple cascading interests that are likely to aggregate more frequently in databases than in works of authorship. In this regard, we applaud the addition of the "good faith" of the defendant as a factor in allowing "permitted use" under section 1403 although, for reasons discussed below, we believe that our additional changes to the "permitted use" section may be needed.

Rather than prescribing a particular approach and trying to address the difficulties of implementing it in legislation, we would prefer (again, in keeping with the Framework for Global Electronic Commerce principles) to assign to database publishers and users the responsibility of devising appropriate standards to identify and assert interests. While in paradigmatic cases, such as the circumstances in *Warren Publishing*, there may be no question about deliberate free-riding, the principle remains: users must have reason to believe that their acts are damaging to others. The "good faith" factor in H.R. 354 combined with private sector-developed standards for notice and disclosure would help ensure that the legislation works to condition behavior based on reasonable expectations and to avoid traps for the unwary.

C. Third Principle—Preserve access to government data

Consistent with Administration policies expressed in relevant Office of Management and Budget circulars and federal regulations, databases generated with Government funding generally should not be placed under exclusive control, de jure or de facto, of private parties.

1. Exemption of government data

The U.S. Government collects and creates enormous amounts of information, possibly more than any other entity in the world. State and local governments in the United States also gather and generate tremendous amounts of data. Broadly defined, government-generated data touches every sector of the economy and civic life. Government-funded data ranges from crime statistics to data on subatomic particles; from geological maps to court opinions; from immigration statistics to digital images of distant galaxies.¹²

¹¹ A Framework for Global Electronic Commerce is available at: <http://www.ecommerce.gov/framework.htm>.

¹² Conceptually, a distinction can be drawn between data "gathered" and data "generated." The decennial Census *gathers* data about Americans; the Hubble telescope *gathers* astrophysical data by capturing images of events that have already occurred in distant parts of the Universe. In contrast, when the U.S. Government established the "zip code" system, it *generated* data that did not exist before. The government *generates* data in the form of new legal opinions, new tax tables, new databases of each day's recipients of Medicare or Medicaid payments. We refer to

The Administration believes that a database protection law generally should not protect government investment in generating data. There are three reasons for this conclusion. First, database protection proposals are premised on the need to provide an *incentive* for investment in data gathering; in the case of government-funded information, no incentive is needed. If a government decides that it is in the public interest to collect information on smog levels, education scores, or solar flare activity, it will do so. Second, there is a widespread sentiment that once data generation has been paid for with government funds, taxpayers should not have to pay "twice" for the same data.

Finally, the U.S. Government has historically pursued policies that strongly favor public funding of the creation and collection of information. The Administration believes that these policies have contributed greatly to the success of America's high technology and information industries as well as the strength of our democratic society. The Administration has stated elsewhere:

"Government information is a valuable national resource. It provides the public with knowledge of the government, society, and economy—past, present, and future. It is a means to ensure the accountability of government, to manage the government's operations, to maintain the healthy performance of the economy, and is itself a commodity in the marketplace."¹³

The Administration believes that the free flow of government-generated data is an important engine of economic growth; it will be an increasingly important resource for any society intent on creating jobs, businesses, and wealth in the "Information Age." Often, government-generated information is also critical to the health and safety of the population; we must ensure that any database protection law does not hamper the dissemination of such information.¹⁴

H.R. 354 addresses the issue of government-generated data with the following section 1404(a) exclusion:

"Protection under this chapter shall not extend to collections of information gathered, organized, or maintained by or for a government entity, whether Federal, State, or local, including any employee or agent of such entity, or any person exclusively licensed by such entity, within the scope of the employment, agency, or license. Nothing in this subsection shall preclude protection under this chapter for information gathered, organized, or maintained by such an agent or licensee that is not within the scope of such agency or license, or by a Federal or State educational institution in the course of engaging in education or scholarship."

The Administration believe that this provision serves the general policy goal of making all forms of government information available to the public, but we believe the language is too narrow to satisfy this goal fully.

To begin with, we suggest that the Subcommittee examine existing definitions of "government information" for more inclusive descriptions of government-sponsored data collection. For example, OMB Circular A-130 states that "the definition of 'government information' includes information created, collected, processed, disseminated, or disposed of both by and for the Federal Government."¹⁵ In particular, we believe that the present language does not adequately cover situations in which the government contracts for or provides grants for information gathering. For example, for reasons of accountability, several government contracts expressly state that the private entity is not an "agent" or "licensee" of the government, removing the data gathering from the ambit of section 1404(a). One way to address this would be to include language that information collected "under government contract, grant, or other agreement" is covered by section 1404(a). Another possibility would be inclusion of language making clear that the 1404(a) exclusion also applies to data gathering "funded by the government."

In crafting broad statutory language that includes works created by government contract as government collections of information, a distinction should be drawn between (a) compilations of data made as a necessary element of a government-funded

the results of all these activities, including research funded by the government through grants or contracts, as "government-generated data" or "government-funded data."

¹³ Office of Management and Budget Circular A-130 Revised [Section 7.b, "Basic Considerations and Assumptions"], available at: <http://www.whitehouse.gov/WH/EOP/OMB/html/circular.html>, hereinafter "Circular A-130".

¹⁴ The U.S. Government's position on the importance of the free exchange of such data has been stated often, including in the "Bromley Statement" on climate change information. See Data Management Global Change Research Policy Statement, Office of Science and Technology Policy, The White House, July 2, 1991.

¹⁵ Circular A-130, Appendix IV "Analysis of Key Sections," section 3 "Analysis."

activity, and (b) compilations of data made by private entities over and above the activity being funded by the government. This appears to be the intent of the section 1404(a) language that:

"Nothing in this subsection shall preclude protection under this chapter for information gathered, organized, or maintained by [a government] agent or licensee that is not within the scope of such agency or license . . ."

This test also should be modified to account for government contractors and grantees who are neither licensees nor agents. In addition, standards for when preparation of a database is mandated by government contract could be developed from existing standards for when government agencies must collect data.¹⁶

We also note that 1404(a) is currently worded so that data gathered by state-funded colleges and universities may enjoy protection under the bill. This same provision appeared in H.R. 2652 and the Committee report for that bill indicated that the statutory language was intended to ensure that "institutions that happen to be government owned should not be disadvantaged relative to private institutions when producing databases . . ." The Administration respectfully disagrees with this reasoning; we believe that public universities should fall within a broad definition of government institutions which generate collections of information. Instead of trying to draw a distinction between public universities and other government institutions, it might be more appropriate to concentrate on the distinction between *public* research and *privately funded* research at *public* institutions.¹⁷

Higher education institutions are also a fertile ground for situations in which a database's generation is *partially* funded by the government. In such circumstances, what is fair to the researcher and to the public? The Senator Hatch discussion draft would have placed outside the protection regime those databases "the creation or maintenance of which is substantially funded by [a] government entity."¹⁸ Without conducting a detailed analysis of the Senate discussion draft provisions, we believe in general that databases produced with substantial government funding should be treated like databases of government-generated data, at least in the absence of a specific contrary provision in the government contract, grant, or other agreement.

2. Dissemination of government-generated data and the potential for "capture"

Once data has been generated with public funding, there remains the goal of disseminating that data as broadly as possible. For many government agencies, the responsibility to make government-generated information widely available is a statutory obligation.¹⁹ Dissemination of government-generated data has always involved

¹⁶ "Agencies must justify the creation or collection of information based on their statutory functions. Policy statement 8a(2) uses the justification standard—"necessary for the proper performance of the function of the agency"—established by the [Paperwork Reduction Act] (44 U.S.C. §3508)." Circular A-130, Appendix IV "Analysis of Key Sections," section 3 "Analysis."

¹⁷ This distinction would apply to more than universities. Many government agencies offer their unique capabilities to the private sector on a reimbursable basis. At the Department of Energy, for example, these transactions can be Cooperative Research And Development Agreements (CRADAs) which are "100% funds-in" agreements or "Work for Others" agreements or User Faculty agreement: that is, the private entity provides 100% of the operating funds for the research which is conducted at a government laboratory. We believe that these privately funded research projects could reasonably give rise to collections of information protectable under a database protection law *because* in judging the equities of the relative contributions to the final database product, there is little or no government investment. Failure to provide protection in such cases would discourage businesses from entering into these agreements. This would sharply curtail the ability of the government to enhance the competitiveness of the private sector.

¹⁸ Section 1301(6)(B), *Congressional Record*, January 19, 1999, at S322.

¹⁹ For example, the Agriculture Department works under a directive to "diffuse among people of the United States, useful information on subjects connected with agriculture . . ." 7 U.S.C. §2201, . . . while NASA has a mandate to "provide for the widest practicable and appropriate dissemination of information concerning its activities and the results thereof," 42 U.S.C. section 2473(a)(3) and 42 U.S.C. section 2051 requires the Department of Energy to insure the continued conduct of research and prohibits "any provisions or conditions [on research] which prevent the dissemination of scientific or technical information . . ." 42 U.S.C. §2051 (d). Statutes such as the Freedom of Information Act and the Government in the Sunshine Act "establish a broad and general obligation on the part of Federal agencies to make government information available to the public and to avoid erecting barriers that impede public access." Circular A-130, Appendix IV "Analysis of Key Sections," section 3 "Analysis." Other departments and programs are under express regulatory mandates to make compilations of information available to the public. For example, in some of their mapping and surveying programs, the Departments of the Interior and Commerce are under a mandate to provide data products "in a format that can be shared with other Federal agencies and non-Federal users." Office of Management and Budget, Circular A-16 Revised [Coordination of Surveying, Mapping, and Related Spatial Data Activities], section 2.

a mix of public and private resources. Through the Congressionally mandated Federal Depository Library Program, the Federal Government uses public libraries, libraries of public universities, and libraries of private institutions to make government-funded information widely available to citizens. In hundreds of cases ranging from the court system to the U.S. Geological Survey, private entities gather raw, government-generated data and then process, verify, and repackage the data to produce value-added products which are then widely disseminated.

Once there are such commercial products, any decisions to devote public resources to disseminate the raw government data further must be weighed against other demands for government resources.²⁰ If government-generated data does not remain available to the public from government sources, there is the potential for capture of data, with one or a few private entities becoming the "sole source" for important data.

When a U.S. Government work is integrated into a private, value-added product, copyright law requires that the U.S. Government portion remain unprotected and available for copying.²¹ The Administration has considered whether a parallel solution to the "capture" problem with collections of information would be appropriate: requiring private entities to identify government information in their value-added products, and excluding such information from any database protection schema. The problem with this approach is that a private entity may make a considerable investment in gathering government data from disparate sources, bringing it together, and distributing it. This "value-added" would be lost—and the incentive for it destroyed—if all the data could be freely appropriated on the grounds that it is government-generated data in a private database.

On the other hand, not requiring that the government-generated data integrated into a private product remain outside the database protection schema creates the risk of "capture." Many people believe that this is a significant danger in the case of published court opinions in which there are only two major private publishers.²² Even when government-generated data remains available to the public from the government, it may be much more difficult to obtain than the private, value-added product. If only because the government does not advertise, it may appear that the private entity is the sole source for the government-generated data (both in the raw or value-added form).

The Administration does not have any single proposal that will solve all of these issues. We do, however, have a few specific suggestions to address, to some degree, the capture and sole-source problems with government-generated data.

First, we recognize the importance of keeping government-generated information in the public domain, and urge agencies whose grants, contracts, or other agreements involve a significant amount of data generation to include provisions in the grants, contracts, or other agreements that require grantees, contractors, and the like to make research results available to the public in a non-commercial form. The Administration would support language calling for a study to address this issue and offer recommendations to agencies, either individually or collectively, on how to improve non-commercial access to government-generated data resulting from research. At the same time, our recent experience with legislative mandates to amend OMB

²⁰ This same balance was expressed by Weiss and Backlund as follows: "On the one hand, this means that the Government should not try to duplicate value-added information products produced by the private sector. On the other hand, it means that the government should actively disseminate its information—particularly the raw content from which value-added products are created—at cost and not attempt to exert copyright-like controls or restrictions." Peter N. Weiss and Peter Backlund, *International Information Policy in Conflict: Open and Unrestricted Access versus Government Commercialization*, in BRIAN KAHN AND CHARLES NESSON, EDS., *BORDERS IN CYBERSPACE* (1997), 300, 303.

²¹ A disclaimer capturing the spirit of this requirement is that found in the U.S. INDUSTRY AND TRADE OUTLOOK (1998) published by McGraw-Hill in cooperation with the Department of Commerce. The disclaimer states: "Portions of this publication contain work prepared by officers and the employees of the United States Government as part of such person's official duties. No copyright is claimed as to any chapter or section whose designated author is an employee of the United States Government, except that copyright is claimed as to tables, graphs, maps or charts in any chapters or sections of this publication if the sole designated source is other than the United States Government."

²² The question of databases of court opinions is complicated by the fact that there are arguably two sets of data intertwined in a commercial volume of court opinions. First, there is the publicly-generated opinions. Second, there is the privately-generated elements, including the pagination of the volume. In *Matthew Bender v. West Publishing*, 158 F.3d 674, 1998 U.S. App. LEXIS 30790, 48 U.S.P.Q.2d (BNA) 1560, (November 3, 1998), the Second Circuit recently concluded that the pagination in privately published court volumes is non-copyrightable. It appears that H.R. 354 would allow second publishers to note where text starts and stops on different pages as independently observable facts under section 1403(c) of the bill.

Circular A-110 counsels against any attempts at this time to impose any uniform access requirements on the wide range of government agencies.²³

Second, we believe that any database protection law along the lines of H.R. 354 should require any private database producer whose database includes a substantial amount of government-generated data to note that fact with reasonably sufficient details about the government source of the data. By this, we mean, for example, "This database was compiled with substantial amounts of data from the National Weather Service, National Oceanic and Atmospheric Administration, Department of Commerce, Washington, D.C." but not "This database was compiled with information from the Department of Defense." In other words, the disclosure should reasonably direct the user to the government source. Defendants could be given an express defense where the database producer has included substantial amounts of government-generated information and failed to make such a disclosure.

We believe that such a requirement (and defense) would eliminate some *apparent* sole source situations by pointing the database user to alternative sources for the information. If the worth of the database producer's product was truly in the "value-added," consumers would stay with the private product. Such disclosures might also give government agencies a stronger incentive to maintain the raw data and keep it available to citizens, thus eliminating at least some sole source situations. Generally, we are hopeful that the digital environment and the Internet will, over time, make it possible for government agencies to provide more government-generated information at less cost through public channels.

D. Fourth Principle—Avoid unintended consequences

Any database misappropriation regime must carefully define and describe the protected interests and prohibited activities, so as to avoid unintended consequences; legislation should not affect established contractual relationships and should apply only prospectively and with reasonable notice.

1. Prior contractual relationships

The Administration believes that any database protection law should expressly state that its provisions may not be used to enlarge or limit any rights, obligations, remedies, or practices under agreements entered into prior to the effective date of the law. This is especially important because today, many, if not most, commercially valuable databases are licensed rather than sold. The purpose of such statutory language would be to avoid unbalancing the contractual relationships that have been freely entered into before a database protection bill becomes law. This is a matter of notice and fairness. Providers of databases should not be permitted to assert limitations on use not contemplated at the time of the contract. Similarly, neither database users nor those under contract to produce databases should be able to take unfair advantage of a change in the law to assert rights where existing contracts (including government grants, contracts, or other agreements) may be silent.

2. Prospective Application

We agree wholeheartedly that there should be no liability for conduct prior to the statute's effective date. With respect to situations in which the investment in the database occurred prior to the law's effective date, the situation is more complex. Based on a strict economic analysis, coverage of such databases is not necessary—the investment occurred without the legal protection. On the other hand, there is some, albeit uncertain, legal protection now. Some incentive still exists deriving from copyright's limited protection, what people still believe to be copyright protection, and by state law. On balance, and especially in the context of a misappropriation approach, we believe that section 4 of H.R. 354 takes an appropriate approach toward this issue.

3. The term of protection

Advocates of database protection have proposed database protection terms of up to 25 years. Alternative views have ranged from criticizing 15 years as too long to the minimalist bill's proposal for more limited rights of unlimited duration. The Administration currently believes that there is no single, optimal term of protection

²³ Statutory requirements of mandatory disclosure of government funded research or government collected information may impinge upon the government's legal and moral obligations to shield some forms of data from disclosure, e.g., private personal data collected in medical research or proprietary business data shared with the government on the condition of non-disclosure.

for the wide range of products subject to protection as "databases" or "collections of information."²⁴

In the absence of strong indicators of the optimal term for an *ex ante* incentive structure, we believe there are two virtues to the 15-year term of protection. First, it corresponds to the term of protection established in the European Union's Database Directive; this may facilitate emergence of an international standard while allowing us to concentrate on important issues like permitted uses and the flow of government-generated data. Second, we believe that 10-15 years roughly coincides with a substantial number of data producers beginning to maintain their records in digital formats. The presence of such digital archives of raw data is important in helping to avoid as many sole-source situations as possible.

Finally, the Administration would be troubled by any efforts—present or future—to establish a term of protection exceeding 15 years. While we recognize that there are and will be some data products which have substantial value after 15 years, the purpose of database protection legislation is to provide an incentive for the creation of new databases; we are doubtful that there are or will be many databases developed with a cost-recovery business plan going beyond 15 years.

4. The "perpetual protection" problem

Some critics of database protection have claimed that while proposals like H.R. 354 call for a fixed term of protection (15 years in this case), they actually raise the specter of "perpetual" protection for non-copyrighted databases. We believe that this is a serious issue that requires careful consideration. The critics' concern about "perpetual protection" has two foundations.

a. "Perpetual protection" from "maintaining": the problem with the "organizing" and "maintaining" criteria

The first source of concern is the word "maintaining" in the basic prohibition. By including "maintaining" as a ground for protection, some database producers may assert that simply maintaining data collected long ago qualifies that data for continuing protection. H.R. 354 seeks to address this problem with the following provision that differs from H.R. 354's predecessor, H.R. 2652, in the bolded text:

"1408(c) Additional Limitation—No criminal or civil action shall be maintained under this chapter for the extraction or use of all or a substantial part of a collection of information that occurs more than 15 years after the portion of the collection that was extracted or used was first offered for sale or otherwise in commerce, following the investment of resources that qualified that portion of the collection for protection under this chapter that is extracted or used. In no case shall any protection under this chapter resulting from a substantial investment of resources in maintaining a pre-existing collection prevent any use or extraction of information from a copy of the pre-existing collection after the 15 years has expired with respect to the portion of that pre-existing collection that is so used or extracted, and no liability under this chapter shall thereafter attach to such acts or use or extraction."

The final sentence of section 1408(c) apparently is intended to eliminate the possibility of "maintenance" being used to perpetuate protection for data entries.

The Administration agrees with Chairman Coble that this potential problem must be addressed and appreciates the effort to respond to it. We are concerned, however, that this approach is too complex. We believe that a simpler, more predictable legal schema would be produced by eliminating "maintaining" as a ground for protection in the basic prohibition. In fact, we urge the Subcommittee to consider whether either "maintaining" or "organizing" is needed as an event triggering protection under the statute. We believe that substituting "collecting" for "gathering" and making it the sole basis for protected investment would address this perpetual protection issue and better focus the statute.

The present legislation is motivated by the need to correct the loss of protection for "industrious collection" under the "sweat of the brow" doctrine. Adding protection for "organizing" and "maintaining" would expand the protected investment well beyond what was historically allowed by the courts that embraced that doctrine. The *Warren Publishing* and similar cases involve collecting in the traditional sense, while there is no history or definition for "organizing" or "maintaining." Some aspects of maintaining data such as checking and adding facts are really aspects of "collecting" and should be recognized as such. We also believe that "collecting" data

²⁴This is similar to economists' efforts to establish the optimal term of protection for copyrighted works where, for example, copyrighted software has a much shorter product cycle than copyrighted books and films which retain significant commercial value for decades.

captures much of the value in "organizing" data that can be lost to free-riders. Organizing that involves selection or judgment is protectable under copyright law, even after the decision in *Feist*. Therefore, inclusion of that term here is not necessary to provide an incentive for such activities. On the other hand, merely mounting a database on a server is part of maintaining it, but mounting data for access does not suffer from the free-riding problem of collecting (i.e., it is an expense that must be borne by the misappropriator as well as the original publisher). For all these reasons, we think it necessary to protect only "collecting."

b. Concern for de facto "perpetual protection"

We also believe that there is a potential "perpetual protection" problem that is more complicated. This problem is rooted in the need to provide some type of protection for *revisions* of databases. Legislation that provided protection to new databases but not to revisions of databases, would skew investment. There would be a disincentive to revise proven, useful databases in favor of creating new databases. Re-assembling (largely) the same information in a new database would be inefficient not only for data gatherers, but for data users who—in order to use the most current data—would have to accustom themselves to the format of the new database. Therefore, any database protection legislation should offer protection for revisions of existing databases, so that new iterations of a protected database are themselves protected. But this means that eventually there may be unprotected data entries (from iterations of the database older than 15 years) intermingled with protected data entries (from more recent iterations).²⁵

This gives rise to a potential problem. In the classic case of a copyrighted book, the text loses protection at the end of its term, although new, revised versions of the text may enjoy fresh periods of protection. This means that one can find unprotected texts of *The Raven* or *Leaves of Grass* in libraries all over the country. At the same time, new versions of these books can be under some copyright protection (including new introductions, abridgements, "notes," artwork, etc.). It is possible to compare the two versions—old, unprotected and new, protected—side-by-side.

In the digital, on-line environment, content producers may choose not to sell copies of their works; access to a database may instead be licensed to users. The advantage is that the database user can receive the most current version of the compilation. The disadvantage is that the user may lack access to an old version of the database to compare old and new entries. The question is, how can a user, accessing only the newest version of a database that has gone through many iterations, distinguish unprotected data entries from protected data entries? In Appendix A we give a simple example of how this problem would arise.

While the Administration believes that the new language of section 1408(c) helps ensure that the bill provides no *de jure* perpetual protection, we remain concerned that the digital environment could produce *de facto* perpetual protection because users would be unable to distinguish protected and unprotected data and, therefore, would be chilled in their use of unprotected data.²⁶ Such inadvertent extension of the protection afforded by H.R. 354 could exacerbate other concerns, including the "sole source" issue and the constitutionality of the law.

²⁵ The legislative history for H.R. 2652 in the last Congress also bore on this issue, stating:

"[N]o action can be maintained more than fifteen years after the investment of resources that qualified that portion of the collection of information that is extracted or used. This language means that new investments in an existing collection, if they are substantial enough to be worthy of protection, will themselves be able to be protected, ensuring that producers have the incentive to make such investment in expanding and refreshing their collections. At the same time, however, protection cannot be perpetual; the substantial investment that is protected under the Act cannot be protected for more than fifteen years. By focusing on that investment that made the particular portion of the collection that has been extracted or eligible for protection, the provision avoids providing on-going protection to the entire collection every time there is an additional substantial investment in its scope or maintenance." (Legislative Report)

²⁶ At the same time, we believe that this potential problem arises with particular kinds of databases. Some databases are revised extensively and constantly; for these databases, the value of the database is much shorter than 10 or 15 years. Stock exchange price listings are the most extreme example, but other lists—realtors' sale listings and used car valuations also fall in this category. Other databases will be revised rarely once a definitive version is completed, i.e. a database of Union warships in the Civil War or the passengers on the *Mayflower*. The databases for which the "perpetual protection" problem arises are between these extremes: they are databases that have value over many years and require substantial, but not total, revision. Examples might include a historical database of the batting statistics of all baseball players in the major leagues or pharmaceutical or toxicological databases used in the medical professions.

There have been varied proposals to address this problem. One proposal has been to "tag" data entries so that older, unprotected data can be distinguished from protected data. We are not in a position to comment on the feasibility, whether technological or economical, of this suggestion. Another proposal—which is set out in the Senate discussion draft—would be the establishment of a deposit system to ensure that older, unprotected versions of the databases would be available to the public. We believe that the storage demands of such a deposit system would exceed anything the Copyright Office or the Patent and Trademark Office now handles. It is also not clear how the costs of such a deposit system should be apportioned.

At different junctures in this statement, we have recommended establishing express statutory defenses to remedy possible problems in a database protection; we make the same type of suggestion here. Where the database that is the subject of a litigation is the descendant of a now unprotected database and has substantial elements in common with that unprotected database, the defendant should be able to raise, as a defense, that the most recent unprotected iteration of the database is not reasonably publicly available.

In other words, if Smith Industries has been issuing the "Smith Industrial Database" annually since 1980, and then in 1999 if Smith Industries sues someone for unauthorized distribution of the "1999 Smith Industrial Database" the defendant can raise as a defense that the 1983 Smith Industrial Database is no longer reasonably publicly available. If the 1983 database is reasonably publicly available, there is no such defense.

The virtue in this approach in comparison to mandatory "tagging" or deposit systems is that it allows each private enterprise to determine how to make its now unprotected database available to the public. Moreover, the database producer does not have to make this final decision until the term of protection is over. Some concern has been expressed about this proposal by database producers who produce continuously updated databases; their situation in relation to this proposed defense merits examination. But, as we said above, we propose the defense when the protected database "is the descendant of a now unprotected database and *has substantial elements in common with that unprotected database.*" We believe that for many continuously updated databases, the most recent database would have almost no elements in common with their 15-year ancestor.²⁷

5. The "sole source" problem

There has been much discussion of what is called the sole-source problem: that many markets for data will be supplied by only one database provider. The sole-source problem arises most acutely when one entity controls access to a unique, unreplicable collection of information, such as weather data that occurs once and cannot be replicated. This control may arise either purposefully, as with an exclusive contract with the data's original generator, or incidentally, when the data's original generator ceases to maintain it. Other practical sole-source situations can arise when an existing database operates as a natural monopoly; that is, it is possible, but not economically efficient, for someone else to build the dataset independently.

Even now, a sole-source may use contracts to preserve its market position against free riding by would-be competitors. Any form of database protection carries with it the possibility that it could further insulate a sole-source database provider against potential competition. Consequently, it will be important that any database protection legislation incorporate provisions that guard against the possibility that sole-source database providers will employ their new rights to the detriment of competition in related markets.

A partial answer to the sole-source problem is a savings clause such as the one in H.R. 354, providing that nothing in the bill operates to the detriment of federal antitrust law. Thus, for example, database owners would be as subject as any other economic actors to the application of the essential facilities doctrine, which prohibits owners of assets that are essential to the ability to compete in a market, and are not feasible to replicate, from refusing to deal with firms that need that access. On the other hand, this doctrine has been invoked relatively rarely, and understandably so: part of the incentive for the development of any valuable product or service is the hope that the product or service will be so attractive to consumers that it will

²⁷ We recognize that this might still leave the problem of an old, but still protected iteration of the frequently refreshed database having a defense raised against it because the most recent *unprotected* database is not reasonably publicly available. At the same time, we are not convinced that producers of frequently refreshed databases cannot find means to ensure that at least intermittent, historic versions of their databases are reasonably publicly available.

become dominant. Regularly compelling access to valuable products and services could diminish their developers' incentives to invest in them in the first place.

At the same time, in markets such as data collection and dissemination, where natural-monopoly characteristics suggest that consumer choice among competing database products and services will not be common, some safety valve over and above the rarely used essential-facility doctrine may be necessary to ensure that database providers are not able to deny access to firms that require it in order to compete in downstream markets. Additional possibilities include the development of doctrines comparable to the misuse doctrine in patent and copyright law or, in extreme cases, the idea/expression merger doctrine in copyright law.²⁸

As with some other problems we have identified above, however, much of the concern arising from the sole-source problem can be eased by defining both the protected activity and the prohibited conduct narrowly. If the bill protects only data collection and generation, it will be covering value-adding conduct that enhances welfare, even though only one firm may find it worthwhile to engage in collecting and disseminating a particular type of database. Similarly, to the extent that the bill prohibits only distribution and extraction for the purpose of distribution, while conversely permitting transformative uses of data, it would leave data providers free to add value and enter markets that the original data collector's work alone was incapable of serving.

E. Fifth Principle—Balance protection with permitted uses

Any database misappropriation regime should provide exceptions analogous to fair use principles of copyright law; in particular, any effects on non-commercial research should be de minimis.

Given the difficulty of foreseeing how "substantiality," "extraction" and other legislative terms will play out in a complex and rapidly changing environment, we expressed concern last summer that H.R. 2652 lacked a balancing mechanism analogous to the fair use doctrine in copyright sufficient to address the wide range of circumstances in which information is aggregated, used, and reused. We were especially concerned that the section 1203(d) exception for non-commercial research and educational uses did not ensure against disruption of legitimate non-commercial research, and that educational activities were not disrupted by the prohibition against commercial misappropriation. Last year, we also were concerned with equitable issues of access and use that may be especially important in markets exclusively served by a single data producer.

In reviewing the permitted acts provisions of H.R. 354 (section 1403), we would like to suggest, as an initial matter, that the Subcommittee rearrange the various "permitted acts" to move more clearly from *absolutely* shielded activities for *all persons* (such as use of insubstantial parts (1403(b))) to the more limited shields on activities set out in 1403(a)(2). We propose that the Subcommittee reorder section 1403 as shown in Appendix B. We believe that this reordering would provide legislation that is easier to understand and a clearer platform for full discussions on whether the permitted activities adequately address policy and constitutional concerns. This proposed reordering is separate from any substantive recommendations.

As to the substantive elements of the permitted acts section, the Administration is pleased that H.R. 354 limits the liability for nonprofit educational, scientific, and research purposes to uses that harm directly the actual market and that the legislation now includes as section 1403(a)(2)(A) provisions for "additional reasonable uses" similar to the fair use provisions of section 107 of the Copyright Act. However, we are concerned that the last sentence in section 1403(a)(2)(A) could be interpreted as overriding the criteria in section 1403(a)(2)(A) with a standard that differs in form but not in substance from the basic operating provisions of section 1402. The Administration would not agree with any intent to override a "fair use"-like balancing test; on the other hand, if the last sentence of 1403(a)(2)(A) is intended only to restate the basic prohibition without disturbing the balancing test, it is extraneous language. We therefore recommend its deletion.

We recognize the desire to avoid the precise fair use terminology of the Copyright Act in order to make clear that the legislation is grounded in misappropriation rather than intellectual property. However, in the interests of transparency and predictability, we believe that the fair use principles of copyright are a sound platform on which to build. Providing the safeguard of familiar fair use criteria can help mini-

²⁸ Further, a requirement that database providers notify users of their intent to assert rights against misappropriation can mitigate against the possibility of some sole-source situations ever developing; if users are on notice that they may be liable for their conduct involving data from a particular database, they may have reason to seek out alternative sources of the data, so that they will not be locked into a single, dominant source down the road.

mize any unintended consequences of the untested basic operating provisions of section 1402. We believe that this would give courts the tools they need to do justice in particular situations.

The fair use factors may need to be framed or supplemented to allow courts to take into account that the subject matter is industrious collection rather than original expression, that the protected interest is purely economic, and that the proscribed behavior is a form of unfair competition. The provision would also have to be recrafted to focus on distribution, rather than use, if the basic prohibition were amended as we have suggested above. Courts might also be called on to recognize the unique conditions of some database markets. But we believe that the vast experience of courts in using the judicially-crafted principles of fair use should be built into database protection legislation. It is worth noting that in the 23 years since Congress codified the fair use factors, it has neither narrowed nor expanded these factors. While it may be appropriate to diverge from copyright fair use in creating the permitted uses regime for database legislation, the differences between the two should be clearly understood and recognized by concerned parties.

Finally, we would reiterate a point made earlier: the scope of the basic prohibition will determine the weight that the permitted uses section must bear in judging both the policy and constitutionality of any database protection legislation.

F. Sixth Principle—Ensure protection for U.S. companies abroad and promote harmonization

Consistent with the goals of the World Trade Organization (WTO) and U.S. trade policy, legislation should aim to ensure that U.S. companies enjoy available protection for their database products in other countries on the same terms as enjoyed by nationals of those countries.

There has been some discussion in the United States about the effects of the European Union's 1996 Database Directive (EU Directive) on American database producers. The EU Directive requires European Union Member States to provide *sui generis* protection for databases, but denies this protection to nationals of any foreign country unless that country offers "comparable protection to databases produced" by EU nationals.²⁹

The Administration opposes such "reciprocity" requirements, both domestically and internationally. We believe that commercial laws (including intellectual property and unfair business practices laws) should be administered on national treatment terms, that is, a country's domestic laws should treat a foreign national like one of the country's citizens. This principle is embodied in Article 3 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) as well as more generally in the Paris Convention for the Protection of Industrial Property and the Berne Convention for the Protection of Literary and Artistic Works.

The Administration believes that Congress should craft U.S. database protection legislation to meet the needs of the American economy. A database protection law properly balanced for the robust digital economy of the United States will serve as a model for other countries that hope to build businesses, employment, and economic activity in the new millennium.

At the same time, we believe that a law along the lines of H.R. 354 (with proper attention to the concerns we have identified) will amply provide protection "comparable" to that provided by national laws implementing the EU Directive. From the perspective of a private database producer, a misappropriation law as discussed in both the last and current Congress would, we believe, provide a cause of action and meaningful remedies in the same range of situations in which the laws implementing the EU Directive provide a cause of action and meaningful remedies.³⁰

Although we believe that a law along the lines of H.R. 354 would provide American database makers with protection under the EU Directive's reciprocity provision, the Administration would, for the reasons stated above, oppose any effort to put automatic reciprocity provisions into American law in this area. United States Trade

²⁹This is established in Recital 56 of the EU Directive. Recital 56 also provides that a foreign national will enjoy database protection when those "persons have their habitual residence in the territory of the Community." This may provide protection to American database producers who have substantial business operations in EU Member States. Pursuant to Article 11/3 of the EU Directive, a determination whether a foreign state offers "comparable" protection must be made by the European Council based on recommendations from the European Commission.

³⁰The EU Directive is not a national law. It "directs" the Member States of the EU to implement a legal framework. H.R. 354 would have to be compared, for example, to German, Dutch, and/or Italian law to make the proper comparison of national law to national law. Such a comparison is well beyond the scope of this statement.

Representative Charlene Barshefsky cited the reciprocity provision of the EU Directive as a subject of concern in announcing the Administration's 1998 Special 301 Review.

While we believe that a United States database protection law should adhere to a national treatment model, the Administration would support an appropriately crafted provision that would allow the President to affirmatively deny database protection to foreign nationals on the appropriate finding by Executive Branch agencies such as the USTR and/or the Department of Commerce. This could, for example, be achieved by statutory language or legislative history making database protection for foreign nationals subject to USTR's Special 301 process.

G. Additional Issues

1. Gradations of Criminal Liability

While we agree with Chairman Coble's decision to shield non-profit researchers and educators from any criminal liability under section 1407, we believe that the existing criminal provisions should be further refined, particularly by drawing a distinction between misdemeanor and felony conduct and requiring minimum amounts of damage under each. This will expand the range of charging options available to prosecutors. We have attached our recommendation for statutory language as Appendix C.

2. Data-Gathering Activities of Law Enforcement Agencies

We believe it is important to make clear that the legitimate data-gathering activities of law enforcement and intelligence agencies will not be affected by the bill. While we believe that intelligence gathering and national security activities are already shielded from liability by section 1402 in that these activities will not cause "harm to the actual or potential" market of the product, we propose an additional statutory provision and legislative history as shown in Appendix D to confirm that these activities fall outside the bill's reach.

3. Administration Study

The Administration believes that, given our limited understanding of the future digital environment and the evolving markets for information, it would be desirable to conduct an interagency review of the law's impact at periodic intervals following implementation of the law. Such a government study might be conducted jointly by the Department of Commerce, the Office of Science and Technology Policy, and the Department of Justice in consultation with the Register of Copyrights and other parties. We believe that such a study should not be limited to any one set of issues or concepts; rather, it should explore issues including: database pricing before and after enactment of the law; database development before and after enactment of the law; international protection for American database producers; the impact of the law on scientific research and education; access issues; and "sole source" databases.

I thank the Subcommittee for the opportunity to appear before you today and look forward to working with you during the legislative process. I would be pleased to answer any questions that you may have at this time.

APPENDIX A

Imagine that in 2000, a database producer makes a database; we will designate the first twelve entries alphabetically:

A
B
C
D
E
F
G
H
I
J
K
L

In 2003, it "expands and refreshes" the database, so that the first fifteen entries are as follows:

A
B
BB
C

D
E
F
FF
G
H
I
J
K
KK
L

In theory, under H.R. 354 in the year 2016, all of the entries except BB, FF, and KK lose protection—and can be copied in their entirety. The problem is that if the database is provided via on-line services, there may be no means for the user to know which entries are unprotected because they were original entries and which entries are protected because they are the result of maintenance investment within the past 15 years. One commentator has suggested that new entries be electronically “tagged,” so that a user can readily determine what is protected and what is not, i.e.

A
B
BB
C
D
E
F
FF
G
H
I
J
K
KK
L

Another possible solution would be to require any database producer that wanted to enjoy protection for a revision of their database after the fifteen year period to make (or have made) the original, no longer-protected database available in a reasonable format. This would be the electronic equivalent of the old copy of *Wuthering Heights* in the public library. The original database need not be as available as the new version—just as old library books usually are not as available as books at retail stores, but it should reach some standard of public access.

APPENDIX B

H.R. 354—PROPOSED RE-WORDING OF THE PROVISIONS ANALOGOUS TO FAIR USE IN COPYRIGHT LAW (with minimal edits)

Sec. 1403. Permitted Acts and Uses

(a) GATHERING OR USE OF INFORMATION OBTAINED THROUGH OTHER MEANS—

Nothing in this chapter shall restrict any person from independently gathering information or using information obtained by means other than extracting it from a collection of information gathered, organized, or maintained by another person through the investment of substantial monetary or other resources.

(b) INDIVIDUAL ITEMS OF INFORMATION AND OTHER INSUBSTANTIAL PARTS—

Nothing in this chapter shall prevent the extraction or use of an individual item of information, or other insubstantial part of a collection of information, in itself. An individual item of information, including a work of authorship, shall not itself be considered a substantial part of a collection of information under section 1402. Nothing in this subsection shall permit the repeated or systematic extraction or use of individual items or insubstantial parts of a collection of information so as to circumvent the prohibition contained in section 1402.

(c) USE OF INFORMATION FOR VERIFICATION—

Nothing in this chapter shall restrict any person from extracting or using a collection of information within any entity or organization, for the sole purpose of verifying the accuracy of information independently gathered, organized, or maintained by that person. Under no circumstances shall the information so used be extracted from the original collection and made available to others in a manner that harms the actual or potential market for the collection of information from which it is extracted or used.

(d) **NEWS REPORTING—**

Nothing in this chapter shall restrict any person from extracting or using information for the sole purpose of news reporting, including news gathering, dissemination, and comment, unless the information so extracted or used is time sensitive and has been gathered by a news reporting entity, and the extraction or use is part of a consistent pattern engaged in for the purpose of direct competition.

(e) **TRANSFER OF COPY—**

Nothing in this chapter shall restrict the owner of a particular lawfully made copy of all or part of a collection of information from selling or otherwise disposing of the possession of that copy.

Sec. 1404. Additional Reasonable Uses

(a) **CERTAIN NONPROFIT EDUCATIONAL, SCIENTIFIC, OR RESEARCH USES—**

Notwithstanding section 1402, no person shall be restricted from extracting or using information for nonprofit educational, scientific, or research purposes in a manner that does not harm directly the actual market for the product or service referred to in section 1402.

(b) **GENERAL REASONABLE USES—**

Notwithstanding section 1402, an individual act of use or extraction of information done for the purpose of illustration, explanation, example, comment, criticism, teaching, research, or analysis, in an amount appropriate and customary for that purpose, is not a violation of this chapter, if it is reasonable under the circumstances. In determining whether such a reasonable under the circumstances, the following factors shall be considered:

- (i) The extent to which the use or extraction is commercial or nonprofit.
- (ii) The good faith of the person making the use or extraction.
- (iii) The extent to which and the manner in which the portion used or extracted is incorporated into an independent work or collection, and the degree of difference between the collection from which the use or extraction is made and the independent work or collection.
- (iv) Whether the collection from which the use or extraction is made is primarily developed for or marketed to persons engaged in the same field or business as the person making the use or extraction.

In no case shall a use or extraction be permitted under this paragraph if the used or extracted portion is offered or intended to be offered for sale or otherwise in commerce and is likely to serve as a market substitute for all or part of the collection from which the use or extraction is made.

(B) **DEFINITION—**For purposes of this paragraph, the term 'individual act' means an act that is not part of a pattern, system, or repeated practice by the same party, related parties, or parties acting in concert with respect to the same collection of information or a series of related collections of information.

Renumber sections 1404 and subsequent

Add to:

Sec. 1401. Definitions

(5) **INDIVIDUAL ACT—**The term "individual act" means an act that is not part of a pattern, system, or repeated practice by the same party, related parties, or parties acting in concert with respect to the same collection of information or a series of related collections of information.

APPENDIX C

§ 1407. Criminal offenses and penalties

(a) **Violation.—**

- (1) **In General.—**Any person who violates section 1202 willfully either
 - (A) for purposes of direct or indirect commercial advantage or financial gain, or

(B) causes loss or damage aggregating \$100,000 or more during any 1-year period to the person who gathered, organized, or maintained the information concerned, or

(C) causes loss or damage aggregating \$50,000 or more in any 1-year period to the person who gathered, organized, or maintained the information concerned, shall be punished as provided in subsection (b).

(2) *Inapplicability.*—This section shall not apply to any employee or agent of a nonprofit educational, scientific, or research institution, library, archives, or law enforcement agency acting within the scope of his or her employment.

(b) *Penalties.*—

(1) Any person who commits an offense under subsection (a)(1)(A) shall be fined not more than \$250,000 or imprisoned for not more than 5 years, or both;

(2) Any person who commits a second or subsequent offense under subsection (a)(1)(A) shall be fined not more than \$500,000 or imprisoned for not more than 10 years, or both;

(3) Any person who commits an offense under subsection (a)(1)(B) shall be fined not more than \$250,000 or imprisoned for not more than 3 years, or both;

(4) Any person who commits a second or subsequent offense under subsection (a)(1)(B) shall be fined not more than \$500,000 or imprisoned not more than 6 years, or both;

(5) Any person who commits an offense under subsection (a)(1)(C) shall be fined not more than \$100,000 or imprisoned not more than 1 year, or both.

(c) *Victim Impact Statement.*—

(1) During preparation of the presentence report pursuant to Rule 32(c) of the Federal Rules of Criminal Procedure, victims of the offense shall be permitted to submit, and the probation officer shall receive, a victim impact statement that identifies the victim of the offense and the extent and scope of the injury and loss suffered by the victim, including the estimated economic impact of the offense on that victim.

(2) Persons permitted to submit victim impact statements shall include—

(A) persons who gathered, organized, or maintained the information affected by conduct involved in the offense; and

(B) the legal representatives of such persons.

APPENDIX D

POSSIBLE ADDITION TO § 1403 TO ADDRESS NATIONAL SECURITY/INTELLIGENCE CONCERNS

Addition of new subsection (g) to § 1403 Permitted Acts:

“(g) Nothing in this chapter shall prohibit an officer, agent, or employee of the United States, a State, or a political subdivision of a State or a person acting under contract of one of the enumerated officers, agents, or employees from extracting and using information as part of lawfully authorized investigative, protective, or intelligence activities.”

Proposed Legislative History to Accompany § 1403(g):

Intelligence gathering and national security activities are already shielded from liability by section 1402 in that these activities will not cause “harm to the actual or potential” market of the product. Section 1403 (g) is offered to further clarify and confirm that these activities and law enforcement activities fall outside the bill’s reach. Subsection 1403(g) is not intended to permit law enforcement or intelligence agencies to use commercially available databases without liability where the use occurs in normal ministerial functions or publicly-known activities of the agency, if such use would cause harm to the market as detailed in section 1402. For example, section 1403 (g) would apply to covert or undercover investigative or intelligence activities where the officer, agent, or employee may be called upon to access databases—physically or through computer networks—without the knowledge of the database producer or the owner (or license holder) of that copy of the database. Section 1403 (g) helps make it clear beyond any doubt that law enforcement and intelligence agencies can continue to conduct any lawfully authorized activities without becoming liable under this Act.

Mr. COBLE. Thank you, Mr. Pincus. I commend each of you, you both beat the red light.

Ms. Peters, you base your view on the shortcomings of copyright law on several cases decided in the mid-1990’s.

Since you testified on the prior version of this bill just a couple of years ago in 1997, there does not seem to have been any new cases that have ruled against database producers based on an overly narrow scope of protection. Is it not possible that there is no longer a problem and that courts are not following the highly restrictive cases?

Ms. PETERS. I would argue exactly the opposite. I think that the court decisions for the most part were predictable, that the precedent has been set by these court cases, that the producers of databases know what courts find as the scope of protection and users know what seems to be allowed; therefore you don't see such more cases. That doesn't mean that the scope of protection isn't too narrow. It's just that with the precedential weight of the existing cases, why should others bring similar cases and be defeated?

Mr. COBLE. Mr. Pincus, your testimony raises the issue of whether or not this legislation would pass constitutional scrutiny or muster.

Your discussion focuses however only on the Copyright Clause. The bill is based on the Commerce Clause. Would the Trademark Act be constitutional under this analysis?

Mr. PINCUS. Mr. Chairman, I think my testimony compares the situation here to copyright but our constitutional analysis I think is based—the concern is a first amendment based concern. That while the presence of express Constitutional authorization for copyright requires some resolution between the first amendment and the Copyright Clause, the absence of express Constitutional authorization for this form of protection, and the fact that we're dealing here with facts as opposed to creative works, creates a greater first amendment problem.

Mr. COBLE. But is there a Constitutional authorization for the Trademark Act?

Mr. PINCUS. I think we're not worried about Constitutional authorization in terms of the Commerce Clause power. We're more worried about the limits on the Commerce Clause power that would apply in this context because we're dealing with speech regarding facts as opposed to in the trademark context where we're really dealing with the statute that has at least as one of its principal goals preventing false speech, which would be the attribution of a trademark which has an implied meaning—"This is made by Company X" on a product that isn't.

Mr. COBLE. Expand for me, if you will, Mr. Pincus, on why you believe the "diminution of incentive" test from *NBA v. Motorola* is ill suited to provide basic protection.

Mr. PINCUS. Our concern, Mr. Chairman, is that that's just a test that's very difficult for anyone who's thinking. Our goal is that the lines that are drawn between permitted and prohibited conduct be clear, as clear as they can. Obviously they can't be crystal clear in any context but that they be as clear as possible so that everyone knows where the lines are and we're not deterring conduct that is outside the scope of protection because people are afraid that they might be falling over the line.

Here that test is really difficult for anyone to know *ex ante* how it will come out as opposed to a harm test, which is a much more straightforward test to apply. And we think especially a substantial

harm test, as we urge, is a good enough proxy for the thought but something that's going to be a lot easier for courts to apply and people to figure out whether they've got a claim or not.

Mr. COBLE. Ms. Peters, would you like to be heard on either of those two questions I put to Mr. Pincus?

Ms. PETERS. No, it's okay. [Laughter.]

Mr. COBLE. I too beat the red light so I will yield to my friend from California, Mr. Berman.

Mr. BERMAN. I will not beat the red light but I will comply with it. [Laughter.]

Mr. BERMAN. Thank you, Mr. Chairman.

Just on the last exchange, Mr. Pincus, with the chairman, it just occurs to me—and it's probably an obvious answer, try not to make me look like the fool—what's the Constitutional basis for libel and slander laws, suing people for protected conduct which is false and defamatory and causes damages?

Mr. PINCUS. What the court has said is that the Free Speech Clause doesn't protect false speech so false statements don't have Constitutional protection.

Mr. BERMAN. Has the court spoken on the issue of theft of—I assume a misappropriation theory is sort of a tort theft, taking somebody else's work for your own use. Have they spoken on this?

Mr. PINCUS. There are decisions. There's a Supreme Court case and there are lower court cases that have said that there can be a misappropriation tort in this context.

I think the concern here is the definition of the tort and how broad the scope is and our feeling is the more the wrong that's created is focused in on—

Mr. BERMAN. I've got you. Let me just finish the rest of your sentence and see if I have it right. If you focus on distribution rather than use you define market in your fashion more clearly. You think you have a better chance of avoiding a court saying 'No, this is too intrusive on protected activity.'

Mr. PINCUS. Right. We think that the focusing in on activity that really is in the mode of competitive harm, taking away the market from another person really gives you a lot more first amendment legs to stand on.

Mr. BERMAN. Say that one more time. Just that last sentence one more time.

Mr. PINCUS. Focusing in on harm, the competitive harm that misappropriation really traditionally focused on, which is taking away markets from the creator, gets you a lot closer to things that would be okay under the first amendment.

I should hesitate to add, because I'm sure the Justice Department will want me to, that we couldn't opine on any particular measure until all the details were in place but we think that moves you much closer to a place where we're more comfortable.

Mr. BERMAN. And then a question also comes up, if the focus here is trying to do something to encourage people to do the work, to create the database, to gather the information, to be a resource for lots of important things, is the problem use, or is the disincentive that we're trying to avoid, is the incentive that we're trying to encourage, as effectively done by focusing on distribution as it is on use? You obviously think it is. I mean you're for the idea of the

misappropriation theory but you want that changed but I'd like to hear what Ms. Peters thinks.

Ms. PETERS. I happen to like the test that we have. I think that it is narrowly drawn. I think that when you talk about extraction or use in commerce and you say "all or a substantial part such as to cause harm to the actual or potential market" and you now have more narrowly defined "potential market" that you have in effect narrowly defined it to the kind of free riding misappropriation type tort that we're trying to address.

Mr. BERMAN. Okay. What would be your criticism of this is a very nice test but what's wrong with that test? Can you accomplish the same thing? Forget all the different facets of it, just focus on the distribution rather than the use.

Ms. PETERS. I think what you're saying is that extraction would be out and it's limited to what is distributed.

Mr. BERMAN. It's distribution and extraction for the purposes of distribution, is that what you're suggesting?

Mr. PINCUS. Right. To cover the situation where someone extracts it and is in cahoots with somebody else to distribute it, yes.

Ms. PETERS. I think that there are databases that are intended for narrow markets, particular markets, and if people can extract without limitation, where's the market? One of the purposes that people subscribe to a database for is to gain that information.

Mr. BERMAN. What does "extract" mean? I buy the database, I pay.

Ms. PETERS. That's it. That's my point. You must have authorized access to the database; you can't merely get unauthorized access and then extract.

Mr. BERMAN. So your focus is not simply on anti-competitive conduct. It's on people getting something for free that they should be paying for?

Ms. PETERS. It has to go to the goal that we're trying to achieve, to encourage investment so people will create. In order to encourage people to invest and create there has to be a market for the product, and we need to protect that market.

Mr. BERMAN. Mr. Pincus?

Mr. PINCUS. I guess I have a couple of responses. One is another assistance help in the first amendment analysis that one gets by focusing on only covering wrongs that would stop the data from being created in the first place. So as close as you can get to that category, then the measure can partially be justified as a speech encouraging measure, which means you're enhancing the total information out there because these people without the statutory protection wouldn't be putting the information out, wouldn't be creating the information at all. That's just one point I wanted to make on the first amendment analysis.

I think the question about obviously focusing on distribution or extraction for distribution leaves some potential wrongdoing uncovered. I think our concern is that the price of covering that wrongdoing is not only problematic Constitutionally, it's also problematic in terms of researchers and other activities and really puts a lot of pressure, if you will, on the permitted use provisions and created a dynamic in the last Congress of really a desire to expand those provisions and sort of identifying specific areas and then covering

them. And that it might be a sort of a better way to cut the baloney, if you will. To say we're not going to worry that much about uses, we're going to focus on distribution because, after all, the cases that have been pointed to as concerns are cases in which there has been a competitive distribution.

Mr. BERMAN. Thank you, Mr. Chairman.

Mr. COBLE. Thank you.

The gentleman from Indiana.

Mr. PEASE. Thank you, Mr. Chairman.

Ms. Peters, can you give us an update, a status report, on discussions in the World Intellectual Property Organization on the subject of database protection and how this proposal would be consistent or inconsistent depending on how far those discussions have gone?

Ms. PETERS. The debate is stalled in the World Intellectual Property Organization.

As you probably know, the European Union has put forward a proposal for database protection that matched its directive and the United States has put forward one. The United States is now going the misappropriation route rather than a property route.

I believe that the United States needs to craft a solution that fits the United States, and I strongly support the misappropriation approach.

If we're able to craft legislation that suites our purposes, that has the appropriate balance I think it will serve the world greatly because it will offer an additional model that many countries might find more attractive than the one that the Europeans have. I think the models are comparable. And, I think that many people are waiting to see what the United States does. If we were to pass legislation you would see movement in the World Intellectual Property Organization to create a worldwide system that would benefit the producers of databases in all countries.

Mr. PEASE. Mr. Pincus?

Mr. PINCUS. I agree very much with Ms. Peters comments that the United States should craft a system that works for us. And I think our position in the World Intellectual Property Organization is that it should not specify a particular way to implement the protections, that the treaty process should look toward requiring a level of protection and then leave it to individual countries to implement those with a particular kind of legal regime that fits their own domestic law.

Mr. PEASE. Would you anticipate that further delay by the United States in addressing this issue would allow the issue to be coopted by others and perhaps addressed in a way that is not consistent with the way the United States would prefer?

Ms. PETERS. It could. We have the leading database industry in the world; the longer that we put off granting protection, the more we'll be seen as not setting a very great example.

Frankly, to be honest, I don't think that there will be much activity in the World Intellectual Property Organization until the United States acts.

Mr. PEASE. Mr. Pincus?

Mr. PINCUS. I think it would be useful to our position to show there already is a sui generis approach out there that's done and

enacted. It would be useful to show that there is an alternative that actually is a law somewhere so that when we make our argument that I stated in response to your last question, that there are different ways of doing this, we actually have another way of doing it out there that we can point to.

Mr. PEASE. I appreciate that.

Thank you, Mr. Chairman.

Mr. COBLE. The gentlelady from California.

Ms. LOFGREN. Thank you, Mr. Chairman. I think this testimony has been very helpful, permitting us to wrap our minds around the issues remaining.

Given the tremendous progress made with the redraft, as I understand you, Mr. Pincus, the last thing we want to do now is create a statute that is deficient constitutionally and doesn't protect anybody. So I think it is well worth our efforts to try to avoid that and come up with something that will survive a court test that will be stable itself and thus lend stability to the marketplace.

As I understand it, you're really suggesting that the more we define this in terms of a market, the safer we're going to be in terms of the first amendment issues. I'm wondering, looking at section 1402 of the bill, specifically the phrase, "measured either quantitatively or qualitatively actual or potential market," whether that language in your judgement, if it could be tightened in some way would help us define the market more precisely and assist us with the first amendment issues?

Mr. PINCUS. Yes, Congresswoman. We especially focus in our testimony on the actual or potential market because there is a lot of concern that both of those terms could be, unless defined very tightly, susceptible to manipulation. I mean, for example, "actual market," how is that test met? If a database creator has a web site that offers licenses in lots of different markets even though there aren't really any sales in them does that mean that all of those are actual markets or potential markets? Add that leads to sort of a gold rush phenomenon where people staked claims broadly but actually only are serving a much narrower market, but it prevents others from competing to serve those markets.

So that's why with respect to actual or potential market we suggest a definition that's tied to either the actual market actually being served or some objective test of a commonly served market by the product to avoid that kind of staking out of a broader area.

Ms. LOFGREN. I'm sorry, I have not yet read your full written testimony. Do you have actual language, you suggested in your testimony, in that regard?

Mr. PINCUS. We suggest those concepts specifically. We don't have actual language but I don't think it would be that hard and we'd be certainly happy to work with you to figure out what some language might be.

Ms. LOFGREN. One of the things of concern is misappropriations standard. The court uses this standard when it makes a determination. But part of the value of giving protection for the effort to create a database is the certainty that what you've created and worked to accomplish is in fact yours.

So my concern is the potential for variability in court decisions that might really be unpredictable at least to some extent, and that

would undercut the value of the database to its creator. Do you have any ideas on how we may give more certainty to judicial decision-making to avoid such a result?

Mr. PINCUS. Well, we've tried in the written testimony to give a number of specifics about areas that we believe that could happen because it works both ways, of course. You want the database creator, as you say, to know what the universe is that's protected. So that can help calibrate the investment. That also obviously helps for the first amendment analysis as well. So we have a number of suggestions.

I think some of the terms here obviously have a meaning and that's useful. And to the extent that the statute is drafted to call upon common law misappropriation concepts that provides a whole body of knowledge out there that courts can look to to interpret it. So I think even apart from changing the terms there is that to fall back on which is very useful.

Ms. LOFGREN. Finally, for Ms. Peters, and for you, Mr. Pincus, as well, if you have a view, please consider the fact that in this Internet world that information, and sometimes misinformation, travels rapidly through this virtual world. There are concerns whenever anything is done, with regard to IP or copyright, that the nature of the Internet will change. How, in your judgement, would passage of this bill, even if tightened up in some of the ways we've discussed, change the Internet as it looks today to the consumer Internet user, if it would change it at all?

Ms. PETERS. My guess is and my hope is that it wouldn't necessarily change it that much. It is true that people have important databases on the Internet and they may use technological protections but that's going to happen with all types of works as we get more and more into electronic commerce.

Much of what you see on the Internet is put on there by the creator of the material, and I don't think that is necessarily going to change. When you have browser software you send your search and it gathers the information that people want you to have. So from the very beginning I had thought that people who want to make information totally available totally for free are going to do that and there's going to be a lot of that. Then there are other products that are going to have more limited terms and conditions of use and I don't see this bill as changing that phenomenon.

Mr. PINCUS. I think it will actually, as we say in the prepared testimony, encourage the availability of more information. I think some of these arguments were made last year—I know the subcommittee is familiar with them—in the WIPO debate. But I think it was the administration's view in that context and it's our view here that having clear protections that really work to the people who are considering whether to invest money in creating new information products, if you will, is the best way to encourage this new transmission medium has a lot of content to go over the wires.

Ms. PETERS. I should have said what he said. [Laughter.]

Ms. LOFGREN. Given that we have a large panel I'll yield back.

Mr. COBLE. I thank the lady.

The gentleman from California, Mr. Rogan.

Mr. ROGAN. Mr. Chairman, thank you. First I want to apologize for being tardy, as often happens when members have competing hearings. Mr. Chairman, I'd like to pass on questions at this time.

Mr. COBLE. Very well, I appreciate that.

Mr. Delahunt, the gentleman from Massachusetts.

Mr. DELAHUNT. Just to segue and maybe restate differently the point pursued by my friend from California—I think the problem that she alludes to will have to be dealt with for any creative work, which I think really argues for supporting an environment that continues to promote state-of-the-art encryption so that we really don't face these problems. Would you like to comment, Mr. Pincus, on that particular—[Laughter.]

Mr. DELAHUNT. That was the question that was whispered in my ear.

Mr. PINCUS. We'd like to try as much as possible. Saying anything about encryption—[Laughter.]

Mr. PINCUS. Our policy is to do that consistent with law enforcement.

Mr. DELAHUNT. I just wanted to make a point, Mr. Pincus. [Laughter.]

Mr. PINCUS. I do.

Mr. DELAHUNT. And I'm trying to win some support over here to my right.

I think it was you, Ms. Peters, who indicated that you don't anticipate any action by the World Intellectual Property Organization until we do something here in this country?

Ms. PETERS. I think we are a critical player. And if we're still stalling or not resolving it doesn't serve WIPO well.

Mr. DELAHUNT. As I'm sure you remember, during the 105th Congress we heard a lot of debate and a lot of diverse perspectives regarding WIPO, and it required a huge effort to formulate legislation in that regard.

Given the scenario where we cannot resolve the differences and we do nothing during the course of the 106th Congress, are we in any danger in terms of this particular issue as it relates to the global market?

Ms. PETERS. I would say yes on two fronts. One, you already have a European directive that is in force in many countries of Europe where protection is not going to be given to our databases that are not protected by copyright and therefore could put our databases at a competitive disadvantage. And I believe that countries that have a gap in their law like the United States their databases are at risk.

Mr. DELAHUNT. So the reality is that it is incumbent upon not just this committee but this Congress to produce something that is legitimate and valid and maintains that comparative advantage I think you alluded to, Mr. Pincus. Is that a fair statement?

Ms. PETERS. I'm ever hopeful that this committee is going to be able to resolve the difficulties.

Mr. DELAHUNT. Thank you very much. I'm going to ask just a few wind up questions to Mr. Pincus, since you are from Commerce, and these are easy questions. [Laughter.]

Mr. DELAHUNT. They have nothing at all to do with encryption.

In terms of the significance to our economy can you in any way quantify what this issue really means in terms of the United States economy and our balance or trade or imbalance of trade, if you will.

Mr. PINCUS. Well, it's clear—and we actually released a report last April that we're going to update this year—that the information technology sector as a sector is one of the key drivers of our economic growth. It's one of our most vibrant export industries and anything we can do to keep that industry strong—and I should say on the technology side the cost reductions are one of the key factors that have limited inflation. So anything we can do to keep that sector of our economy strong and growing is something that's going to help keep our economy on the tremendous course that it's been on.

Mr. DELAHUNT. The need to address this issue, you would suggest, is important in keeping that economy in a vigorous forward motion?

Mr. PINCUS. Well, I guess I'd say it's not called The Information Age for nothing. [Laughter.]

Mr. DELAHUNT. That's a great answer, Mr. Pincus.

Mr. PINCUS. Our economy is an information based economy right now and anything we can do to create, to keep new sources of information feeding into the economy and being exploited creatively by the people who do that has got to help us.

Mr. DELAHUNT. One final question. You indicated that the Government really is probably the most significant creator of databases in the world. Does the Government as a matter of course utilize databases that have been developed and created in the private sector?

Mr. PINCUS. The Government creates databases and certainly Government scientists and others do use private databases, yes.

Mr. DELAHUNT. Therefore, if we don't maintain a high level in terms of our databases the Government itself would be at a disadvantage in terms of all aspects of our national policy. Am I overstating or is that a fair observation?

Mr. PINCUS. I think it's clearly important. The other observation I think is that a lot of Government data—the Government doesn't disseminate a lot of its data to the public, intermediaries do and it's obviously important that that data get out. We couldn't afford—you all wouldn't want to appropriate the money that it would take to get that data out, although the Internet makes that somewhat easier. But getting value added, getting intermediaries to add the value and to disseminate the information is important.

Mr. DELAHUNT. Asking the question it occurred to me that the data that we're constantly requesting from governmental agencies—I'm talking about this institution, Congress—is enormous. And here we are as members of the House of Representatives making significant policy decisions in all aspects of our national life, predicated on the information that we received both from the public sector and the private sector as far as our database is concerned.

Mr. PINCUS. I think that's right.

Mr. DELAHUNT. Thank you.

Mr. COBLE. Thank you, folks. Today has the trappings of a very beneficial hearing and the questions put to you all and your re-

sponses have gotten us off on the right foot, I think. We will be in touch subsequently, I'm sure. Thank you both for being here.

If the second panel will come forward I will introduce them as you make your way to the table.

Our first witness is Mr. James Neal, who is the Dean of the University Libraries at Johns Hopkins University. Previously he was dean at the University Libraries at Indiana University and held administrative positions in the libraries at Penn State, Notre Dame and the City University of New York. For the past 4 years he has chaired the Information Policies Committee and the Copyright Working Group of the Association of Research Libraries. He had been selected by ACRL's 1997 Academic Research Librarian of the Year.

Our second witness is Mr. Terrence McDermott, who is Executive VP at The National Association of Realtors. The National Association of Realtors is the Nation's largest professional association, representing nearly 700,000 members in all aspects of the real estate industry. Mr. McDermott has more than 25 years experience in media and publishing. He attended the Loyola University in Chicago and received a Bachelor of Arts Degree in organizational development from the National College of Education in Evanston, Illinois. He also served on the visiting faculty of the Radcliffe College Publishing Program and the Northwestern University's Medill School of Journalism.

Our third witness is Marilyn Winokur, Executive Vice President, Micromedex, Inc. Micromedex is well known for its creation of new, pioneering products and is a leading publisher of computerized information systems for health care and environmental health and safety. She has been with the company since its formation in 1974. Ms. Winokur received her Bachelor of Science Degree from the University of Pennsylvania and her MBA from the University of Denver.

Our next witness is Professor Joshua Lederberg, who is a research geneticist and a Sackler Foundation scholar and President Emeritus at the Rockefeller University in New York. He is testifying today on behalf of the National Research Council. In 1958, Dr. Lederberg received the Nobel Prize in physiology and medicine. Dr. Lederberg is a member of the National Academy of Sciences and a charter member of the Institute of Medicine. He was educated at the Columbia and Yale Universities, where he pioneered in the field of bacterial genetics with the discovery of genetic recombination in bacteria. He has been awarded numerous honorary Doctor of Science and MD degrees and the LLB from the University of Pennsylvania.

Our next witness is Mr. Lynn Henderson, who is President and CEO of the Doane Agricultural Services Company in St. Louis, Missouri. Founded in 1919 by D. Howard Doane, the 80 year old company is a leading provider of marketing and management information for agricultural producers and agribusinesses. Doane publishes educational books and provides market consultation and customized communication for several agribusiness clients. Mr. Henderson, as a matter of interest, was reared on a grain livestock farm in Iowa. And he's an alumnus of Iowa State University at Ames.

Our next witness on this panel is Mr. Mike Kirk, Executive Director of the American Intellectual Property Law Association. It's good to see you again, Mr. Kirk. Mr. Kirk served as Deputy Assistant Secretary of Commerce and Deputy Commissioner of Patents and Trademarks from May 1994 through March 1995. In 1993 Mr. Kirk also served as the Acting Assistant Secretary of Commerce and Acting Commissioner of Patents and Trademarks. Mr. Kirk earned his Bachelor of Science in electrical engineering at the Citadel in 1959, his juris doctor in 1965 from Georgetown University Law Center and his Master of Public Administration in 1969 from the Indiana University.

I say to Mr. Pease, we have several from your State today, Mr. Pease.

Mr. PEASE. We're well served accordingly.

Mr. COBLE. Our next witness is Mr. Charles Phelps, who moved to the University of Rochester in 1984 as Director of Public Policy Analysis Program, a graduate program offered by the Department of Political Science in conjunction with the Department of Economics. In 1989 he left that position to become chair of the Department of Community and Preventive Medicine in the School of Medicine and Dentistry. He served in that role until 1994 when he was selected for his current position as provost of the University of Rochester. As provost Mr. Phelps oversees the entire academic activity of the university, including all teaching and research in each of the university's six schools. Mr. Phelps trained in business economics at the University of Chicago with a PhD in 1973 emphasizing the economics of health care following his BA degree from Pomona College in Claremont, California in 1965 and an MBA in Hospital Administration from the University of Chicago in 1968.

Folks, I apologize for these detailed introductions but I think it's important that you all, as well as we, know the background of these witnesses.

Our final witness is Mr. Dan Duncan, who serves as vice President for Government Affairs at the Software & Information Industry Association, a group formed in January 1999 through a merger of the former Software Publisher's Association and the Information Industry Association. SIAA represents some 1,400 companies involved in the production and distribution of software and information products, especially those targeted to the digital marketplace. Mr. Duncan has responsibility for the overall management of SIAA's Government affairs program, including implementation of strategies to achieve the Association's policy goals.

Mr. Duncan has a strong academic background in international affairs, including a study project in Germany as a Junior Fulbright Scholar, a Masters Degree in German from Harvard University and post-graduate study in international law and economics at the Johns Hopkins University School of Advanced International Studies in both Bologna, Italy and Washington, D.C..

We have written statements from each of the witnesses on this panel and ask unanimous consent that they be submitted in their entirety at the end of the record.

Ladies and gentlemen, it's good to have you all with us. If you will, be ever alert of the red light as it illuminates into your faces.

We will start, Mr. Neal, with you.

**STATEMENT OF JAMES G. NEAL, DEAN, UNIVERSITY
LIBRARIES, JOHNS HOPKINS UNIVERSITY**

Mr. NEAL. Thank you, Mr. Chairman.

I'm James Neal, Dean of the University Libraries at Johns Hopkins University. I'm testifying today on behalf of five of the Nation's major library associations. Collectively we represent 80,000 librarians in research, academic, law, medical, public, State based and special libraries throughout North America. We serve millions and millions of users across this country every day.

I very much value this opportunity to appear before the subcommittee again to share our views on H.R. 354. As indicated, the full statement will be included in the record.

Mr. Chairman, proponents of this legislation will argue that the concerns of the library and education communities have been addressed by this new bill, and we certainly appreciate that H.R. 354 includes new provisions which seek to address some of the objections that were raised in the debate last year on H.R. 2652. These new provisions notwithstanding with others in the public and private sectors, we have significant continuing concerns about H.R. 354.

I would like to also introduce in the record a position statement that has been endorsed now by over 125 organizations, institutions and companies, and the number is expanding rapidly.

Mr. COBLE. Without objection it will be done.

[The information referred to follows:]

POSITION STATEMENT

The corporations, educational institutions, non-profit organizations and trade associations listed below are users as well as creators in the compilation and value-added transformation of databases. The Information Age and digital technology provide researchers and consumers across the globe with a unique opportunity to continue to create, maintain, and use new and innovative databases that are essential to science, education, business, and the overall economy.

Because databases are items of commerce in their own right, and are critical tools for facilitating electronic commerce, research and education endeavors, we support Federal legislation carefully tailored to provide database publishers with sufficient protection against incentive-eliminating piracy. Conversely, we oppose legislation which would grant the compiler of any information an unprecedented right to control transformative, value-added, downstream uses of the resulting collection or of any useful fraction of that collection.

The basic information policy of this country—a policy that has existed since the writing of the Constitution—has served us extremely well. The policy is that the building blocks of all information—facts, as distinct from the copyrightable manner in which they are expressed—cannot be owned.

The particular legislative approach that has been considered by the House Judiciary Committee in the past three Congresses would mark a fundamental change in our nation's information policy. The problems raised by this change to commerce and competition were recognized by the Department of Justice, the Department of Commerce, and the Federal Trade Commission last year in separate letters to Congress identifying their concerns with H.R. 2652 considered by the 105th Congress. H.R. 354, the Collections of Information Antipiracy Act, is modeled on last year's bill and does not resolve these concerns.

We support Federal legislation that will not harm legitimate research activities and small businesses, but will—

- prevent unfair competition in the form of parasitic copying;
- preserve the fair use of information;
- promote the progress of science, education and research;
- protect value-added publishers and their customers; and
- provide safeguards against monopolistic pricing.

We look forward to working closely with all Members of Congress to craft well-reasoned, targeted and balanced legislation that will punish database pirates without jeopardizing the thriving commerce in information long at the core of America's economic, scientific and intellectual life.

Amazon.com, Inc.
 Amdahl Corporation
 American Association for the Advancement of Science
 American Association of Law Libraries
 American Association of Legal Publishers
 American Association of State Colleges and Universities
 American Committee for Interoperable Systems
 American Council on Education
 American Film Heritage Association
 American Library Association
 American Meteorological Society
 American Society of Agronomy
 American Statistical Association
 Americans for Tax Reform
 Art Libraries Society of North America
 Association of American Physicians and Surgeons
 Association of American Universities
 Association of Research Libraries
 Association of Systematics Collections
 AT&T
 Ball Research, Inc.
 Bell Atlantic
 Big 12 Plus Libraries Consortium
 Bloomberg Financial Markets
 Brown University
 California Institute of Technology
 Case Western Reserve University
 CDnow, Inc.
 Charles Schwab & Co., Inc.
 Citizens' Council on Healthcare
 College Art Association
 Columbia University
 Commercial Internet eXchange Association
 Computer & Communications Industry Association
 Computer Professionals for Social Responsibility Conference on College Composition and Communication
 Consortium of Social Science Associations
 Consumer Electronics Manufacturers Association
 Consumer Project on Technology
 Cornell University
 Council of Graduate Schools
 Council on Governmental Relations
 Crop Science Society of America
 Diamond Multimedia Systems, Inc.
 Digital Future Coalition
 Digital Media Association
 Duke University
 Dun & Bradstreet
 Eagle Forum
 Electronic Frontier Foundation
 Enso Audio Imaging, Inc.
 Excite
 Florida Coastal School of Law
 Geocities
 Global Music Outlet, Inc.
 Harvard University
 Home Recording Rights Coalition
 Information Technology Association of America
 Inktomi
 Internet Society
 Iowa State University
 Kent State University
 Linda Hall Library of Science, Engineering and Technology

Louisiana State University
 Lycos
 Massachusetts Institute of Technology
 MCI WorldCom
 Medical Library Association
 Missouri Council on Library Development
 Montana State University
 Music Library Association
 National Association of State Universities and Land-Grant Colleges
 National Council of Teachers of English
 National Initiative for a Networked Cultural Heritage
 National Writers Union
 NetRadio Network, Inc.
 Netscape Communications Corporation
 North Carolina State University
 Northwestern University
 Oklahoma State University
 Omnibot
 Online Banking Association
 Pennsylvania State University
 Queens Borough Public Library, NY
 RealNetworks, Inc.
 Rice University
 Rutgers University
 Soil Science Society of America
 Special Libraries Association
 Spinner Network, inc.
 Stanford University
 StorageTek
 Syracuse University
 Tunes.com
 U.S. WEST
 United States Catholic Conference
 University at Stony Brook, State University of New York
 University Corporation for Atmospheric Research
 University of Arizona
 University of California System
 University of Chicago
 University of Cincinnati
 University of Colorado
 University of Delaware
 University of Florida
 University of Kansas
 University of Kentucky
 University of Michigan
 University of Missouri-St. Louis
 University of Missouri-Columbia
 University of New Orleans
 University of North Carolina—Charlotte
 University of Southern California
 University of Tennessee, Knoxville
 University of Texas at Austin
 University of Utah
 University of Virginia
 University of Washington
 University of Wisconsin-Madison
 University System of Maryland
 Utah Agricultural Experiment Station
 Utah State University
 Vanderbilt University
 Visual Resources Association
 Washington University, St. Louis
 Wells Anderson Legal Tech Services
 Yahoo! Inc.
 Yale University

Mr. NEAL. Thank you.

We believe that there are other alternative approaches that could address the interests of those seeking additional protections for databases while maintaining the important balance between producers and users. We support a more targeted approach, a more narrow approach to additional protections for collections of information.

Let me highlight our concerns with H.R. 354. It is noteworthy that these points also reflect the analysis and correspondence provided to the Members of Congress by Department of Commerce, the Federal Trade Commission and the Department of Justice.

First, the legislation is over broad in scope and it represents in many ways a radical departure from the current intellectual property framework that protects expression, not investment. There is clearly a Constitutional obligation in this country of protecting expression rather than facts.

H.R. 354 would overturn our 200 years of information policy in this country which has consistently supported unfettered access to factual information. Indeed H.R. 354 would provide more protection to databases and collection than is available for copyrighted works.

Second, provisions in H.R. 354 would allow a producer or publisher unprecedented control over uses of databases, including downstream transformative use of facts and Government works in the collection. The success of our Nation's systems of education and scholarship depend upon the ability to use public domain information to combine public and proprietary data to create new databases and to reuse existing data. Researchers typically create new knowledge by building upon the work of others.

The use of the terms "qualitatively" and "quantitatively substantial" leave the librarian and researcher in a quandary. Why? Because the librarian and researcher have no way of knowing which bits of information the producer considers qualitatively or quantitatively substantial. These provisions would greatly discourage the use, re-use and recompilation of data. The FTC shares these concerns.

Third, the exemption for education and research activities are improved but they remain far too narrow. H.R. 354 includes a new provision for reasonable uses which did not appear in the earlier bill. This provision is certainly a step in the right direction in addressing one of the serious concerns of the library community yet the provision as drafted falls short of what we in the library and academic community require to conduct a wide range of our currently permitted research and educational activities.

Section 1403 states that "no person shall be restricted from extracting or using information." Very often libraries and educational institutions are the only market for particular databases or collections. Thus by definition research use of the content of such collections could be held to "harm directly the actual market" making the exemption of little practical value for the vast bulk of research and educational uses.

In addition, the new reasonable use exemption applies only to an "individual act of use or extraction of information." Researchers routinely build upon prior knowledge. This entails limited use of particular data items. It does not entail copying entire databases and competing head to head in the commercial marketplace. That

is not how we conduct ourselves in libraries or in the research community. This current practice would not be covered by this new exemption.

Fueling our concern with this provision is the claim by proponents of the legislation that any harm, even one lost sale, could trigger liability under this statutory regime.

Fourth, the term of protection is, in effect, perpetual, at least for dynamic compilations in electronic form, despite the language that seeks to remedy this problem.

A new provision in H.R. 354 attempts to correct the situation identified in its predecessor. Proponents argue that the mere maintenance of a collection on a server should trigger another 15 year cycle of protection. The new language, however, falls short of fully addressing our concerns. Where dynamic electronic databases are concerned, the older versions, as a practical matter, may be unavailable—making the right of access after 15 years recognized in the language, a hollow one.

Even if the new language were to be interpreted to permit librarians and researchers to extract 15 year old data items from the current version of the collection, there is no system in place where a librarian or user can determine which portion of a database is more than 15 years old, thus no longer subject to protection. It is staggering to imagine the implications of thousands and thousands of researchers and librarians across the country trying to determine if each and every use was permitted.

Fifth, the provision relating to Government information requires modification to ensure a continued robust public domain and to ensure that information in Government mandated databases is not covered by this legislation.

Many statutes mandate the collection and dissemination of certain types of data: securities information, environmental data, labor statistics, for example. Under the terms of this legislation companies which provide data to the Government could exert property rights over this data.

Significant collections of Government mandated information which have been publicly available could become unavailable, available only for a fee or available with significant restraints on use and re-use.

Sixth, provisions do not address concerns regarding sole source databases and provisions in the bill could lead to increased transaction costs in data use as identified by the Department of Commerce.

Mr. Chairman, in conclusion, we believe that if this legislation is enacted in its current form and with the current approach it could fundamentally change the research enterprise and how members of this community use information and at significant cost.

The approach taken in H.R. 354 could lead to a licensing framework where facts, Government information and other information could not be used without permission and additional cost for use.

The ability to tightly control uses of information, including downstream and transformative uses could be at odds with the culture of building upon prior research and could undermine the basic mechanisms of scientific and educational data exchange.

We look very forward to working with the subcommittee on these issues to ensure the appropriate balance among all the communities and sectors so that we have good legislation adopted.

[The complete statement of Mr. Neal follows.]

PREPARED STATEMENT OF JAMES G. NEAL, DEAN, UNIVERSITY LIBRARIES, JOHNS HOPKINS UNIVERSITY

Mr. Chairman, I am James G. Neal, Dean, University Libraries, Johns Hopkins University and Past President of the Association of Research Libraries and a current member of the Executive Board of the American Library Association. I was a member of the U.S. delegation to the World Intellectual Property Organization in December 1996 as well.

I am testifying today on behalf of five of the Nation's major library associations: the American Association of Law Libraries, the American Library Association, the Association of Research Libraries, the Medical Library Association, and the Special Libraries Association. Collectively, we represent 80,000 librarians in research, academic, law, medical, public, state-based, and special libraries throughout North America. I very much appreciate the opportunity to appear before the Subcommittee again to share our views of H.R. 354, the "Collections of Information Antipiracy Act."

Mr. Chairman, we appreciate that H.R. 354 includes two new provisions which seek to address some of the concerns raised during the debate last year on H.R. 2652. These new provisions notwithstanding, with others in the public and private sectors, we have significant continuing concerns with H.R. 354. We believe that H.R. 354 as drafted would benefit a small number of companies while providing no comparable benefits to libraries and the public they serve. The preservation and continuation of balanced rights and privileges in the electronic environment are essential to the free flow of information.

We do believe, however, that there are other alternative approaches that could address the concerns of those seeking additional protections for databases while maintaining the important balance between producers and users. We support a more targeted approach to additional protections for collections of information and would be pleased to work with members of the Subcommittee to achieve such legislation.

Let me detail our concerns with H.R. 354. It is important to note that many of our concerns are reflected in the analyses and correspondence provided to members of Congress by the Department of Commerce (DOC, August 4, 1998), the Federal Trade Commission (FTC, September 28, 1998), and the Department of Justice (DOJ, July 28, 1998). Most if not all of these concerns remain valid, given the similarity between H.R. 2652 and H.R. 354.

KEY CONCERNS

- The legislation is overbroad in scope and it represents a radical departure from the current intellectual property framework that protects expression, not investment.
- Provisions in H.R. 354 would allow a producer or publisher unprecedented control over the uses of information including downstream, transformative use of facts and government works in the collection.
- The exemption for education and research activities, although improved, remains far too narrow.
- The term of protection is in effect, perpetual, at least for dynamic compilations in electronic form, despite the addition of language that seeks to remedy this problem.
- The provision relating to government information requires modification to ensure a continued, robust public domain and to ensure that information in government-mandated databases is not covered by this legislation.
- Provisions in H.R. 354 do not address concerns regarding sole source databases. And,
- Provisions in the bill could lead to increased transaction costs in data use as noted by the Department of Commerce.

- 1) *The legislation is overbroad in scope and it represents a radical departure from the current intellectual property framework that protects expression, not investment.*

There is a constitutional obligation in the United States of protecting expression rather than facts. This imperative is based on a legal foundation that stimulates innovations in the public and private sectors, supports the educational process, and "promotes the progress of Science and the useful arts." The new regime proposed in H.R. 354 constitutes a radical departure from our current system—a regime that would permit the protection of factual information by virtue of the investment made in collecting the data. H.R. 354 would overturn over 200 years of our Nation's information policy which has consistently supported unfettered access to factual information. The Department of Justice noted that an earlier version of this legislation "would instead also provide protection to ordinary facts, which are not now subject to copyright protection and may be unsuited to such protection as a matter of constitutional law."¹ Indeed, H.R. 354 would provide more protection to databases and collections than is available for copyrighted works.

Given this significant departure from current policy, it is crucially important that, as the bill moves through the legislative process, a far more narrow, targeted approach be taken to ensure that there are no negative or unintended consequences for a vast public and private sector, including libraries, that properly relies on access to data and government works.

To that end, it will be important to better define key terms. For example, the Department of Justice commented that, "... many of the critical, proposed statutory terms are not well-defined. Because of the ambiguity of many of these terms, it is impossible to know for certain how wide-ranging H.R. 2652's applications would be."²

H.R. 354 has not remedied this serious concern. Key terms and concepts remain undefined. For example, what constitutes "a substantial part, measured quantitatively or qualitatively?" What threshold qualifies as "investment of substantial monetary or other resources?" What is "harm" to the actual or potential market?"

- 2) *Provisions in H.R. 354 would allow a producer or publisher unprecedented control over uses of a database including downstream, transformative use of facts and government works in the collection.*

The success of our Nation's education and research systems is dependent upon the ability of researchers to access data and information for multiple purposes. Scientific and research progress depends upon the ability to use public domain information, combine public and proprietary data to create new databases, and reuse existing data. Researchers typically create new knowledge by building upon the work of others. This practice, often described as, "standing upon the shoulders of giants" is the basis for our Nation's global leadership in the research and education arenas which fuels all sectors of the economy. Surely, we want this long-standing practice to continue and not be disrupted.

Researchers need access to large and small amounts of data. Yet H.R. 354 prohibits the extraction, or use in commerce, of "a substantial part, measured either quantitatively or qualitatively, of a collection of information. . . ." By allowing the database producer to prevent reuses of "qualitatively" substantial parts of a database, the legal standard which is at the heart of H.R. 354, the bill effectively prevents the reuse of any information. Why? Because the researcher has no way of knowing which bits of information the producer considers "qualitatively substantial." As noted by the FTC, "users might not be able to judge whether a particular use of information is *qualitatively* substantial."³ The FTC states that, "this definition may not give a user sufficient guidance to reasonably determine whether a particular use of a collection of information would be *quantitatively* substantial enough to trigger civil and potentially criminal liability."⁴

In addition, libraries have yet another concern with the broad sweep of this legislation. If we have made information lawfully available to a researcher, can we or the researcher be held liable for subsequent reuse of that information by third par-

¹ U.S. Department of Justice, Office of Legal Counsel, "Constitutional Concerns Raised by the Collections of Information Antipiracy Act, H.R. 2652," July 28, 1998, page 4.

² U.S. Department of Justice, Office of Legal Counsel, "Constitutional Concerns Raised by the Collections of Information Antipiracy Act, H.R. 2652," July 28, 1998, page 3.

³ Federal Trade Commission, Letter to Chairman Bliley from Chairman Pitofsky, FTC, September 28, 1998, page 4.

⁴ Federal Trade Commission, Letter to Chairman Bliley from Chairman Pitofsky, FTC, September 28, 1998, page 3.

ties? Unless this ambiguity is resolved in the negative, the chilling effect on the research enterprise will be further exaggerated.

In sum, these provisions would greatly discourage the use, reuse, and recompilation of data—the foundation of the research and education enterprise and would prevent libraries from supporting these endeavors.

3) *The exemption for education and research activities, although improved, remains far too narrow.*

H.R. 354 includes a new provision for “reasonable uses” which did not appear in H.R. 2652. This provision is a modest step in the right direction in addressing a serious concern of the library community, and we do appreciate its inclusion in H.R. 354. Yet, the provision as drafted falls short of what the library and academic communities require to continue to conduct a wide range of research and education activities.

Section 1403 states that “no person shall be restricted from extracting or using information for nonprofit educational, scientific, or research purposes in a manner that does not harm directly the actual market for the product or service.” Very often, however, libraries and educational institutions are, in fact, the *only* market for particular databases or collections. Thus by definition research use of the content of such collections could be held to “harm directly the actual market” making the exemption of little practical value for the vast bulk of research and educational uses.

In addition, the new reasonable use exemption applies only to an “individual act of use or extraction of information done for illustration, explanation, example, comment, criticism, teaching, research, or analysis, in an amount appropriate and customary for that purpose.” As already noted however, researchers routinely build upon prior knowledge by using selected items from particular databases on multiple occasions over time. This practice would not be covered by the exemption. I would note that this practice, so crucial to the research enterprise, entails limited, selective use of particular data items; it does not entail copying entire databases and competing head to head in the commercial marketplace with the producer of the first database.

Finally, the new reasonable use exception is limited according to certain criteria. The fourth criteria states, “whether the collection from which the use or extraction is made is primarily developed for or marketed to persons engaged in the same field or business as the person making the use or extraction.” Most uses in the library and education communities would fall outside the scope of this exemption because as noted above, many times, the library and education communities are the *only* market for these collections.

Fueling our concern with this provision is the claim by proponents of the legislation that *any* harm, even one lost sale, could trigger liability under this statutory regime.

We do appreciate the inclusion of language that would reduce or remit monetary relief if an individual in a nonprofit educational, scientific, or research institution or library or archives believes that his or her conduct was permissible. Nevertheless, the exemption under this new regime for nonprofit institutions would not permit the library and education communities to engage in many activities that are *lawful* today.

4) *The term of protection is, in effect, perpetual, at least for dynamic compilations in electronic form, despite the addition of language that seeks to remedy this problem.*

A new provision in H.R. 354 attempts to correct a serious problem identified in its predecessor, H.R. 2652. Proponents argue that the mere maintenance of a database or collection on a server should trigger another 15 year cycle of protection. The new provision in H.R. 354 attempts to correct this serious problem, by making older versions of databases available for use even though newer ones remain protected. The new language, however, falls short of fully addressing our concerns. Where dynamic electronic databases are concerned, the older versions may, as a practical matter, be unavailable—making the right of access recognized in the new language a hollow one.

Even if the new language were to be interpreted to permit librarians and researchers to extract 15-year old data items from the current or updated version of the database in which they are contained, there is no system in place whereby a librarian or user can determine which portion of a database is more than fifteen years old, thus no longer subject to protection. And if such a system could be established, as was debated last fall during the negotiations sponsored by Sen. Hatch, implementation would be impractical and the economic implications for libraries and educational institutions would be enormous. A library would need to check

every use of information contained in a database to determine when the information was entered into the collection thus when it was no longer subject to protection. The burden on the institutions would be costly and extremely time consuming to discharge. It is staggering to imagine the implications for thousands of researchers and libraries across the country trying to determine if each and every use was permitted.

Finally, the FTC notes that "it is unclear that a 15-year term is necessary in order to protect incentives to produce all types of databases."⁵ In particular, in some high-tech markets, product cycles are 6-18 months. The useful commercial life of some data, like stock prices, can expire in a matter of hours, if not minutes. The Commission also comments that the limited legal protection afforded to information to date has been provided only to time sensitive or "hot" information such as current stock quotations, sports statistics, and the like.

Thus, the new language incorporated in H.R. 354 does not solve one of the fundamental problems of database legislation of this type. Like its predecessor, the practical effect of H.R. 354 would be to jeopardize the continued existence of a vital "public domain" of information. Under such legislation, the movement of information from commercial sources would be slow and uncertain, at best. At the same time, as explained below, the approach taken in such legislation would threaten the continued availability of public domain government information for general public use and—specifically—for research and educational purposes.

- 5) *The provision relating to government information requires modification to ensure a continued, robust public domain and to ensure that information in government-mandated databases is not covered by this legislation.*

The library community supports the intent of the drafters to make more government information publicly available without restriction. Yet it will be important to ensure that the significant part of the universe of government information—data collected under statutory mandate—is not subject to these protections in any final legislation.

Many statutes mandate the collection and dissemination of certain types of data, e.g. securities information, environmental data, and labor statistics. This information is part of the public record and should be available for all to use. Moreover, the number of public and private partnerships in data collection is increasing. Under the terms of this legislation, companies which provide data to the government could exert property rights over this data. Thus some government information would become the intellectual property of private companies. Significant collections of government-mandated information which have been publicly available could become unavailable, available for a fee, and/or available with significant constraints on use and reuse.

This latter point is especially important. These companies would have the ability to exert downstream control over information in government-mandated databases under the terms of this bill. For example, almost any kind of transformative use, such as abstracting from one of these databases or combining some of the data from one collection with information from other sources to create a new and useful database, could trigger liability for third parties. The Department of Commerce states, "It is important that legislation not create inappropriate opportunities of incentives to "capture" government information or government-funded data with relatively small investments in maintenance, organization, or supplemental data."⁶

- 6) *Provisions in H.R. 354 do not address concerns regarding sole source databases.*

Although the bill permits individuals to collect information independently in order to compete in the commercial marketplace, such independent collection often is virtually impossible or is economically infeasible. Historical data or data for field experiments are two common examples. We understand that tackling this issue is extremely difficult. But by failing to address the sole source issue, the bill could create monopoly control over information of certain kinds.

For libraries and users there would be little recourse. The publisher or database producer is not obligated to permit transformative uses in a license nor is there any leverage in negotiating the license to moderate costs or permit downstream activities.

⁵ Federal Trade Commission, Letter to Chairman Bliley from Chairman Pitofsky, FTC, September 28, 1998, page 3.

⁶ U.S. Department of Commerce, Letter to Sen. Leahy from Andrew Pincus, General Counsel, August 4, 1998, page 2.

7) *Provisions in the bill could lead to increased transactions costs in data use as noted by the Department of Commerce.*

Finally, the library community shares the concern included in the Department of Commerce letter regarding the increased costs in use of data. The library community acquires and licenses well over \$2 billion of information resources each year. We do not seek information for free and we understand that unauthorized digital copying can lead to piracy. America's libraries depend, in part, upon the well-being of those publishers. Throughout our history, libraries have been among the most voracious, lawful acquirers of published works. But we cannot support legislation that would impose new economic and administrative burdens on our institutions and on the Nation's research enterprise.

As noted in the Administration's letter of August 4, 1998 there are grounds for concluding that aspects of the "Collections of Information Antipiracy Protection Act," "may increase transaction costs in data use, particularly in situations where larger collections integrate datasets originating from different parties or where different parties have added value to a collection through separate contribution of gathering, refining, and/or maintaining the data. This is especially important for large-scale data management activities, where public investment has leveraged contributions from the public and non-profit sectors."⁷

In closing Mr. Chairman, we believe that if this legislation is enacted in its current form and with the current approach, it would fundamentally change the research enterprise and how members of this community use information and at what cost. The approach taken in H.R. 354 could lead to a licensing framework where facts, government information, and other information could not be used without permission and with additional costs for each use. The ability to tightly control uses of information including downstream, transformative uses would be at odds with a culture of building upon prior research and could undermine the basic mechanisms of scientific and educational data exchange.

Another model which has widespread support in the library, education, and commercial sectors is a more narrowly tailored bill. This draft, the Database Fair Competition and Research Promotion Act, is focused on outlawing the parasitical copying of commercial databases. This alternative would prohibit a person from fully duplicating a database and then engaging in head to head competition in the marketplace. It also would bar non-commercial online distribution of large quantities of data extracted from commercial databases. In addition, the draft tackles the thorny issue of sole source databases and monopolistic practices. And finally, and most importantly the draft bill would permit transformative, downstream uses of information contained in protected databases.

We look forward to working with the Subcommittee on these issues to ensure the appropriate balance between all communities and sectors.

The American Library Association is a nonprofit educational organization of 57,000 librarians, library trustees, and other friends of libraries dedicated to improving library services and promoting the public interest in a free and open information society.

The American Association of Law Libraries is a nonprofit educational organization with over 5,000 members dedicated to serving the legal information needs of legislators and other public officials, law professors, and students, attorneys, and members of the general public.

The Association of Research Libraries is an Association of 122 research libraries in North America. ARL programs and services promote equitable access to and effective use of recorded knowledge in support of teaching, research, scholarship, and community service.

The Medical Library Association is an organization of over 3,800 individuals and 1,200 institutions in the health sciences information field. MLA members serve society by developing new information delivery systems, fostering educational and research programs for health sciences information professionals, and encouraging an enhanced public awareness of health care issues.

The Special Libraries Association is an international association representing the interests of nearly 15,000 information professionals in 60 countries. Special librarians are information resource experts who collect, analyze, evaluate, package and disseminate information to facilitate accurate decision-making in corporate, academic, and governmental settings. The Association offers a myriad of programs and services designed to help its members serve their customers more effectively and succeed in an increasingly challenging environment of information management and

⁷ Department of Commerce, Letter to Sen. Leahy from Andrew Pincus, General Counsel, August 4, 1998, page 2.

technology. SLA is committed to the professional growth and success of its membership.

Mr. COBLE. Thank you, Mr. Neal.
Mr. McDermott.

**STATEMENT OF TERENCE McDERMOTT, EXECUTIVE VICE
PRESIDENT, THE NATIONAL ASSOCIATION OF REALTORS**

Mr. McDERMOTT. Thank you, Mr. Chairman.

My name is Terry McDermott. As mentioned, I'm Executive Vice President of the National Association of Realtors. In that capacity I represent not only our 750,000 Realtor members but our 1,600 Realtor boards throughout the country and the 900 multiple listing services that we use to provide real estate information to all of our practitioners, buyers and sellers, and increasingly directly to consumers.

Our concern and our strong support for this bill is to allow us to continue to take one of the oldest and most significant databases in this country, founded in 1887 in San Diego, California, and continue to provide it to the marketplace as an orderly market tool, and to allow consumers to use MLS data from our database in order to make a more significant considered purchase in home ownership in this country.

As you all know, in 1998 we reached our third consecutive year of record existing home sales, 4.8 million, and almost 68 percent of home ownership levels in this country. We feel that the MLS system is one of the information resources why that market continues to grow and why this country continues to have the highest rate of home ownership.

Our concern and our strong support of this bill is based on the fact that real estate as an industry is extremely information sensitive and intensive. It does have significant intrinsic value. It also represents—the information itself represents a contractual agreement between the lister, or the home seller, and the agent. When it exists within the confines of our database it is in fact protected by that contract, it is protected by State licensing laws, and indeed it is protected by the code of ethics of the National Association of Realtors.

So the consumer sharing that data has many guarantees of protection of information and both its use for immediate service and its downstream use. If someone is allowed without the ability for us to recoup that information or protect it to strip it and use it for other information all of those protections for the consumer disappear.

Although we were founded in 1887 in the era of the quill pen and the typewriter, we have in fact today launched the Multiple Listing Service onto the Internet in 1997. Today Realtor.com, which is the collective information base of all the Realtor listings in the United States and represents 90 percent of the homes for sale in the United States, is in the top 20 Internet sites on the entire World Wide Web. We, in fact, have 475 million hits a month and service 7 million consumers in their search for housing throughout the United States.

We did that aggressively but also knowing under current law that we had some potential downstream liability for the theft or

the piracy of that data. We have been challenged in court three times and currently have been successful. However, as everyone on the panel knows, protecting and adjudicating that on a copyright law basis is both lengthy and extremely expensive.

We think the ability to use the Internet to again take a hundred year old database and its intention and to continue to provide the marketplace with an orderly market tool that makes housing more accessible to the American people, that makes it less expensive to obtain, and gives us not only the highest rate of home ownership but a method of home ownership which is in fact enviable to most other real estate economies and markets throughout the world is definitely something that needs protecting.

We also want to protect the future. Six months in Internet days is 20 years in other markets and we want to be able to assure that as we develop more data and we are able to bring electronic commerce to the real estate transaction that we're able to utilize information to make the real estate transaction less expensive and more effective for the consumer.

That we'll be able to do so without concerns that we are in fact exposing even more sensitive information about that process to people who would use it for their own commercial ends without approval by the people who own it, either the owner of the property or the realtor who owns the contract listing, and not be able to use it to effectively enter into commercial relationships in which they had no participation and in fact have no liability.

The National Association of Realtors obviously strongly is in support of open competition, strongly in support of the protection of copyright and trademark laws. Obviously the term Realtor itself is well protected by that law and has been for more than a hundred years. But we also feel that we all need the protection in this new age of being able to aggressively pursue opportunities on the Internet without concern that others would take advantage of our relationship with the client and take significant advantage of the value of the data downstream.

Thank you, Mr. Chairman.

[The complete statement of Mr. McDermott follows.]

PREPARED STATEMENT OF TERRENCE McDERMOTT, EXECUTIVE VICE PRESIDENT, THE NATIONAL ASSOCIATION OF REALTORS

Good Morning. My name is Terry McDermott I am the Executive Vice President of the National Association of REALTORS® (NAR). We represent over 730,000 REALTORS® involved in all aspects of the real estate industry nationwide. I would like to speak to you today about the "Collections of Information Antipiracy Act." First of all, I would like to thank Chairman Coble and Congressman Berman for their introduction of H.R. 354, as well as those members of the subcommittee who have cosponsored the bill. I want to assure you of NAR's commitment to support its passage this year.

Real estate is information sensitive. As reliance on sources of information increases, so does their value. REALTORS® have long used compilations of data relating to property listings collected by the Multiple Listing Services (MLS) located throughout the United States. In addition, NAR offers information on property listings to the public through its REALTOR.COM website. These services and long time practices are threatened by entities who pirate this information and utilize it to the detriment of REALTORS®. H.R. 354 would prohibit this harmful practice.

REALTORS® believe in and welcome healthy competition. We do not believe that the ability to press a button and copy listings to another's site is healthy. It is, in fact unhealthy for both our profession and the consumer. REALTOR.COM gives the consumer a huge database of information useful to their homebuying and selling

process. There are many competing sites operating today which utilize legal and fair methods to obtain their listings.

REALTORS® abide by a strict Code of Ethics which provides a higher standard of care to consumers and punishment for wrongdoing. NAR believes that it is the right of the REALTOR® and the homeowner to decide where their listing should appear. It is on this relationship that the whole process is based. REALTORS® are proud of the trust they earn from consumers as a result. H.R. 354 would support homeowners and REALTORS® by prohibiting unscrupulous parties from seizing the fruits of this relationship, and utilizing them in an unfair and inappropriate way.

NEED FOR ADDITIONAL PROTECTION

REALTORS® invest substantial resources in obtaining, developing, and maintaining real estate listings. Indeed, these listings are the essence of the business of real estate. H.R. 354 would prohibit a competitor from extracting a substantial number of those listings and using them in a manner which harms REALTORS®. The bill would provide a complement to copyright, and represents a minimalist approach to the prevention of unfair duplication and marketing.

MLS information is pirated for many purposes. Listing information is copied to a competitor's site as their own. They may sell advertising banners and may demand commission splits from listing agents for referrals of buyers. Non-real estate entities may want this information for business referral purposes. H.R. 354 would prohibit the misappropriation of REALTORS® valuable commercial collections of real estate property listings by pirates who would grab them, repackaging them, and market them to the detriment of REALTORS®.

Consumers can also be effected by this misappropriation. A licensee has a fiduciary duty of care to the home seller or buyer. They are obligated to follow the laws and regulations of their jurisdictions. A pirating entity has no contractual or legal obligation to the homeowner or the consumer at all. There would be no protection of their identity or address. A pirated listing may not be subject to regulation, and thus the consumer would be without protection. *So, although the bill is intended to protect a compiler's commercial interest, it may also provide consumer protections in the case of real estate listings.*

While REALTORS® will continue to rely on federal copyright law, state contract law, and underlying licensing agreements to protect our enormous investment in real estate listings, we feel that the gaps in this protection can best be filled by a new federal statute which will complement copyright law.

H.R. 354, the "Collections of Information Antipiracy Act," will prohibit the misappropriation of our valuable listing data in a balanced and fair approach which maintains and reinforces existing protections for research and educational uses of information. In addition, the bill has been strengthened in the area of the "fair use doctrine" to make clear that the new protections under this statute would not effect that doctrine.

Armed with the certainty that H.R. 354 would provide, REALTORS® could be expected to maintain the most comprehensive real estate site in the world. This bill will ensure the value that a real estate listing provides to the public. It will promote the continued investment and upgrading of internet-based real estate sites and increased access to the consumer. In short, the bill will serve to broaden the consumers' ability to access information by protecting the collectors' investment in compiling that information.

BACKGROUND

Multiple Listing Services (MLS)

The multiple listing service is one of the most valuable sources of information in the real estate industry. The compilation of data in an MLS is a valuable asset that needs to be recognized as such and protected.

A multiple listing service is a system for the orderly correlation and dissemination of information about real property listed for sale with real estate agents who participate in the system. An MLS also allows participants to make offers to other participants to "cooperate" in the sale of a property. Typically, these offers of cooperation consist of a listing broker's offer to compensate another agent if the latter procures a ready, willing, and able buyer for the property.

MLS's are quite pro-competitive. Real estate agents who participate in an MLS are not limited to marketing the properties of sellers who have hired them to sell their properties. Such agents can seek to sell, and earn a fee on the sale of, properties listed with other real estate agents. Further, with many MLS's placing their listings on websites, such as REALTOR.COM, a prospective home purchaser can easily access information about a wide variety of properties for sale rather than just

those listed with a particular agent with whom the purchaser may be working. Property sellers also benefit from wider exposure of their properties to potential buyers than would be possible without the MLS. Thus, the system serves to benefit sellers, buyers, and real estate agents alike.

In order to prevent dissemination of MLS information by participants to unauthorized persons, MLS's claim copyright protection for the MLS database. They also adopt rules which limit the extent to which MLS participants can use and distribute MLS information. Limitation of dissemination of MLS information is necessary to shield property sellers from direct inquiries about the property and from bombardment by solicitations for a variety of products and services attendant to real estate transactions, such as moving companies or home inspectors.

Today approximately 900 multiple listing services operate nationwide. The first multiple listing service was set up in 1887 by brokers in San Diego, California, though it wasn't called that at the time. At approximately the same time, an MLS started in Cincinnati, Ohio. In 1907, a year before the National Association of REALTORS® was founded, the term *multiple listing service* was first used.

In 1968, the Long Island Board of REALTORS® made one of the first attempts at a computerized MLS. It failed due to the expensive and cumbersome equipment. In 1972, the Baltimore Board of REALTORS® instituted a centralized, computerized system for compiling MLS information. Starting as paper listings copied into binders, multiple listing services have developed into sophisticated electronic databases utilized nationwide for instantaneous dissemination and viewing by the real estate industry.

REALTOR.COM

REALTOR.COM is an effort to bring this sort of instant and wide variety of listings to the public. Our website contains over 1.2 million homes for sale. Each listing can be brought up by community, price, size and several other factors which the consumer chooses. Most listings contain photographs of the property. This site provides the consumer with the breadth of information desirable to assist in the home purchase. Last month, over 6 million consumers visited REALTOR.COM and 11.5 million home searches were conducted. These results are clear evidence of the viability and success of real estate web sites.

Both REALTOR.COM and MLS's are services which require constant maintenance and updating. They are expensive to maintain. Listings which become stale and outdated are useless to both the consumer and the REALTOR®. State real estate regulations often require the listings to remain up to date. Thus the information contained on these sites is quite valuable to many different parties. The temptation to pirate this information has already been too great for some to avoid.

CASE SUMMARIES

Although legal actions under copyright law have been successful to date, they were based on the wholesale copying and use of real estate listings. Courts held that the inclusion of purely descriptive terms and abbreviations caused the works to have the requisite "creativity" to obtain copyright protection. REALTOR.COM and other internet real estate sites have rendered most of the historical abbreviations extinct. In addition, with the focus and publicity that these legislative efforts have given this issue, smart pirates may be emboldened to attempt the misappropriation of partial listing information, sticking to the facts. This uncertainty is exactly what H.R. 354 would address.

In *Montgomery County Association of REALTORS® (MCAR) v. Realty Photo Master*, 878 F. Supp. 804 (D. Md. 1995), *aff'd*, 91 F.3d. 132, 1996 WL 412584 (4th Cir. 1996) (Unpublished Disposition), the defendants copied the MLS database, added photos of the listed properties, and sold the resulting product.

Like many other MLS's, MCAR's system consisted of a computerized database containing information about the various properties for sale listed with MLS participants. In 1988, RPM developed and began offering to MLS participants a software system which digitized and downloaded, to a real estate agent's personal computer, photographs of homes that were offered for sale. In order to identify and photograph properties listed for sale in the system, RPM needed to gain access to the MCAR MLS. RPM persuaded an MLS participant to provide such access, and was then able to integrate its electronic photo display and distribution service. RPM then sold its database of computerized photos of homes to several MLS participants. RPM also sold software which allowed participants to simultaneously access the MLS-provided information about the home (such as the features and price of the property, the listing broker's identity and the terms of cooperation offered by the listing broker) and the RPM-provided photographic images of the home.

Upon discovering that RPM had access to the MLS database, MCAR sued RPM alleging that RPM's use of its database constituted copyright infringement. The district court held that the computerized MLS database was copyrightable and that the copyright and copyright registration secured by MCAR were valid. The court rejected RPM's claim that the MLS database was a mere collection of simple facts about the properties listed for sale. RPM claimed that like the white pages telephone directory in *Feist Publications, Inc. v. Rural Tel. Ser. Co.*, 499 U.S. 340 (1991), the MLS should not be entitled to copyright protection. However, the district court held that the MLS database possessed the "minimal degree of creativity" required by *Feist*. In particular, the court pointed to the "marketing puffery" in the property listings ("elegant updated home, close to DC lines, gorgeous private backyard, lovely sunroom off LR") and the "unique and elaborate system of abbreviations" employed by MCAR in the database. Thus, the court held that inclusion of factual data about the homes listed (address, style, age, floor plan, price) did not negate the copyright protection to be afforded the original presentation and arrangement of the information.

The district court's conclusion was consistent with the result in another post-*Feist* MLS-copyright case, *San Fernando Valley Board of REALTORS®, Inc. v. Mayflower Transit, Inc.*, No. CV 91-5872-WJR (Kx) (C.D. Cal. 1993), where the court held that the manner in which listings were selected for inclusion in the Board's MLS database, and the information about each listing which was included, made the MLS database entitled to copyright protection and copyrighted.

Significantly, the district court did not reach the question of whether RPM violated MCAR's copyright. Although RPM conceded that it downloaded the MLS database into its computer, it gained access to the database through an agreement with an MLS participant. The court noted that the rules applicable to MLS participants authorized them to disclose MLS data to "persons essential to the conduct of the participant's business"; thus, an issue was raised as to whether RPM's downloading was or was not authorized. A finding that there was such authorization would, of course, preclude copyright infringement liability.

This ruling was unfortunate because the matter of infringement was at least as significant as the question of copyrightability of the MLS compilation. *While unauthorized wholesale, intact electronic reproduction of the entire MLS database would almost certainly constitute prohibited copying, it was less clear whether more limited reproduction of only certain aspects or items of information in the database would constitute copying prohibited by the Copyright Act. This uncertainty works against associations with copyrighted databases.*

The Collections of Information Antipiracy Act would address the uncertainty created by the judicial decisions. It would create clear guidelines on what constitutes unfair duplication of compilations of information, and it would provide appropriate remedies for wrongdoing. In conclusion, the National Association of REALTORS® once again thanks the sponsors of H.R. 354, and pledges its support for early passage and enactment of the bill into law.

Mr. COBLE. Thank you, Mr. McDermott.
Ms. Winokur.

STATEMENT OF MARILYN WINOKUR, EXECUTIVE VICE PRESIDENT, MICROMEDEX, INC.

Ms. WINOKUR. Mr. Chairman, I wish to extend my appreciation to you and the members of the subcommittee for allowing me to testify today on behalf of the Coalition Against Database Piracy, or CADP. CADP is an ad hoc group composed of small and large U.S. database providers who have joined together to secure enactment of effective, fair database protection legislation.

I am Marilyn Winokur, Executive Vice President of Micromedex, located in Englewood, Colorado, and a member of the Thomson Corporation's Health Care Information Group. Micromedex provides comprehensive databases of drug information, toxicology, emergency and acute care, occupational medicine, chemical safety and industrial regulatory compliance.

I appear before you today as a businessperson, not as a lawyer. I don't know the magic words that will provide database producers

the protection that is needed. I just know that protection is needed. What I want to do is provide you and members of the subcommittee some sense of the enormous financial and human investments made in the creation of our databases and, more specifically, to convey some sense of the potential life threatening consequences if our databases are ripped off.

Today more than 4,000 facilities in over 90 countries rely on Micromedex's knowledge bases. The Micromedex editorial board, comprising more than 450 practicing experts world wide, reviews and edits all information presented, compiled from the most current peer reviewed medical journals available.

Some of the subcommittee may be familiar with our Poisindex database as well as the Physician's Desk Reference, or PDR, or our sister company, Medical Economics. Poisindex provides medical professionals, usually emergency room physicians or poison control specialists, with immediate access to comprehensive listings of toxicological information, a crucial tool to complement their years of experience and training. Authorized users have unlimited access to this data 24-hours a day, 365 days a year in their own facilities.

Poisindex contains more than a million entries describing substances such as drugs, chemicals, commercial and household products and biological threats. This database enables medical professionals, for example, to identify a substance that a child may have ingested and then to provide instructions for critical immediate care. Treatments guided by this special database have helped save thousands of lives since Poisindex was created 25 years ago. The database lists each substance with its ingredients and links it to documents detailing its clinical effects, treatment measures, degree of toxicity and other relevant information.

Not only do clinicians within the hospital setting and poison control centers rely on the integrity of the data, many Government agencies use the databases in the treatment of people and environmental management. The risks faced by U.S. forces in Saudi Arabia during Desert Storm were not limited to the threat of conventional warfare. The conditions, including poisonous snakes and exotic plants, presented problems specific to the desert locations. Warfare agents and risks of potential problems from contact with solvents, fuels, chemicals used regularly by the military were of added concern.

Micromedex provided the military with Poisindex and other databases for use by the Air Force Tactical Air Command in Army field hospitals. In addition, telephone consulting services by three physicians and five pharmacists, all Micromedex employees with more than 10 years of experience in toxicology, were made available during Desert Storm.

Other recent events in which our databases played an important role included the Oklahoma City bombing, the Olympics in Atlanta, the California and Mississippi floods and the Montana train derailment.

As members of the subcommittee may now see, it is not necessarily melodramatic to say that the reliability, accuracy and thoroughness of Poisindex are a matter of life and death. That is why database producers can not and should not be under threat from pirates.

Twenty-five years worth of data management and investment makes the Micromedex collection comprehensive and credible for clinicians' use. With our extensive review process and evolving medical practices, the content is constantly updated and evaluated. It is unlikely that someone who pirates the database would maintain such accuracy and the results could be deadly. And if our valuable information can be taken for free what incentive does Micromedex have to continue the investment in its data integrity.

Again, Mr. Chairman, your commitment to a fair and balanced database protection bill is appreciated by database producers. If Poisindex, PDR and other important databases are to continue to exist into the 21st Century, legislation is needed and it is needed now. CADP looks forward to working with you and the subcommittee, and I'll be pleased to address questions that you may have.

Thank you.

[The complete statement of Ms. Winokur follows.]

PREPARED STATEMENT OF MARILYN WINOKUR, EXECUTIVE VICE PRESIDENT,
MICROMEDEX, INC.

SUMMARY

CADP is an ad hoc group composed of small and large U.S. database providers who have joined together to secure enactment of effective, fair federal database protection legislation. As a result of the efforts of CADP members and others in the U.S. database community, scientists, researchers, academicians, scholars, business people and consumers have ready access to a wealth of user-friendly, reliable and up-to-date information.

CADP's goal is simple and straightforward: the passage of legislation to deter piracy that causes commercial harm to database creators, while maintaining the traditional balance between the respective interests of the owners and users of informational products. The need for this legislation is underscored by (1) the vulnerability of databases to illegal copying and dissemination—especially in a digital environment; and (2) international developments—including the European Union's Database Directive.

The misappropriation approach set out in both H.R. 354 and in the versions passed twice by the House in the last Congress provides the necessary framework for a database protection law.

H.R. 354 contains the essential features of a database bill, such as (1) a prohibition against market harmful misappropriations of databases by competitors and non-competitors alike; (2) exemptions for the extraction or use of individual items and other insubstantial parts of databases—unless such acts occur repeatedly or systematically; (3) express language permitting a second comer from independently creating its own databases from the same sources as the original compiler; (4) an exclusion that precludes collections of information compiled by federal, state or local governments from claiming protection under the bill; and (5) a broad exemption for news reporting activities.

In the last Congress, the Collections of Information Act was amended time and time again to accommodate the interests of the user community. These included: (1) the adoption of special liability rules governing nonprofit violators; (2) an express statement that uses or extractions for nonprofit purposes are actionable *only* if they harm a protected collection of information's *actual, not potential*, market; (3) the elimination of the bill's criminal penalties for certain nonprofit employees acting within the scope of their employment; and (4) placing a fifteen year outer limit on the protections afforded under the bill.

Given the many changes made in the legislation in the last Congress to address the concerns of database users, any additional changes to last year's final bill must be viewed with great care and caution. We cannot so dilute the bill as to undermine its effectiveness as a tool against database piracy or risk comparability with the EU Directive.

STATEMENT

Mr. Chairman, my name is Marilyn Winokur. I am Executive Vice President of Micromedex, a leading publisher of clinical support databases and a subsidiary of

the Thomson Corporation. I appear here today on behalf of the Coalition Against Database Piracy ("CADP"), of which the Thomson Corporation is a member.

The Coalition Against Database Piracy ("CADP") welcomes the opportunity to share with the Subcommittee its views on why Congress should enact fair database protection legislation, in general, and its views on H.R. 354, "The Collections of Information Antipiracy Act," in particular.¹

I. Introduction

Mr. Chairman, CADP thanks you for your leadership in this important area. Our members are especially grateful for your recognition of the crucial role that databases play in our information society and the need for Congress to enact legislation to fill the gap in database protection under U.S. law.

CADP is an ad hoc group composed of small and large U.S. database providers who stand to suffer grievous harm—and whose thousands of employees' jobs will be at risk—if fair and effective federal database legislation is not enacted promptly. Its members include the American Medical Association; The McGraw-Hill Companies; the National Association of Securities Dealers; the Newsletter Publishers Association; the Newspaper Association of America; the New York Stock Exchange; Phillips Publishing International, Inc.; Reed Elsevier Inc.; Silver Platter Information, Inc.; Skinder-Strauss Associates; the Software and Information Industry Association; the Thomas Publishing Company; The Thomson Corporation; and Warren Publishing, Inc.

CADP's members are an integral part of the U.S. database community. Today, the United States is the world leader in the creation and distribution of informational databases. Our members employ or represent many thousands of editors, researchers, and others who gather, update, verify, format, organize, index and distribute the information contained in their vast array of database products. They also invest millions of dollars annually in the hardware and software needed to manage these large bodies of information.

Mr. Chairman, your bill, H.R. 354, addresses a basic unfairness in our legal system: its failure to protect adequately the interests of those whose hard work and substantial financial investments result in the creation and dissemination of valuable databases. H.R. 354 is about eliminating the inequity in a legal regime that allows an unscrupulous competitor to copy with impunity the contents of someone else's compilation and then destroy the first compiler's market by selling a competing, less expensive product. It is also about rectifying the injustice that takes place when a dishonest customer or a "cyberprankster"—without permission—electronically copies and makes it freely available over the Internet. In sum, it is about helping restore fairness to the database marketplace.

CADP's goal is simple and straightforward: to deter piracy that causes commercial harm to database creators, while maintaining the traditional balance between the legitimate interests of owners and users of informational products.

Mr. Chairman, your bill, H.R. 354, is a crucial step towards striking the correct balance between the interests of both creators and users of collections of information. As discussed in greater detail below, CADP believes that:

- (1) H.R. 354 contains the essential features of a database protection bill; and
- (2) Given that in the last Congress the Collections of Information Antipiracy Act was amended time and time again to accommodate the interests of the user community, any additional changes to last year's final bill must be viewed with great care and caution—otherwise, the bill may be so diluted as to undermine its effectiveness as a tool against database piracy.

CADP believes the time for congressional action is now. The risks to database creators will only increase as our society becomes more and more dependent on computers and digitized information and as technology provides new and more efficient ways to reproduce and distribute information products. The need for prompt congressional action is also underscored by the recent adoption of a database protection directive by the European Union ("EU").² As discussed below, unless the U.S. enacts a database protection law that the EU deems comparable to the terms of its Directive, U.S. database producers will be at a distinct commercial disadvantage in the EU and beyond.

¹ H.R. 354, 106th Cong. (1999).

² See Directive 96/EC of the Eur. Parl. and of the Council on the Legal Protection of Databases, Feb. 5, 1996 [hereinafter EU Directive].

II. Brief Overview of Database Industry

Databases available in this Information Age are a far cry from the traditional printed compilations that have existed for centuries—both in terms of content and methods of delivery. U.S. databases provide the world with information on everything from antidotes to poison, to prescription drugs, to the keys to building safer cars, to comprehensive compilations of patents and related information. They provide a vast array of comprehensive data vital to the successful operation of our economy—including information about health, communications, finance, banking, business, news, travel and defense.

By giving consumers and professionals accurate, thorough, and up-to-date tools, database creators play a crucial role in our information-driven society. The work that they do in collecting, compiling, arranging, standardizing, correcting, indexing, updating, cross-referencing, and verifying adds immense value to a mass of otherwise unintelligible, disparate data. Moreover, the investments of database creators in creating, organizing, and maintaining these products greatly reduce the time and effort consumers need to conduct important research and ensure the reliability of the facts included. Without the hard work of database producers, vast amounts of valuable and systematically organized information would be unavailable to many users who themselves could not replicate the financial and human investments made by the database compiler. Many American jobs depend on a healthy, vibrant U.S. database industry.³

III. Vulnerability of Databases

Although creating, maintaining and disseminating databases is expensive and time-consuming, copying and distributing databases without permission is cheap and easy. The advent of digital, high-speed computer networks adds greatly to the threat of piracy. Today, database pirates can use widely available technologies to make and print unauthorized copies of electronic databases and send them around the world. Internet users can duplicate and distribute large collections of information with the click of a mouse and at a fraction of the enormous costs of their development. This risk will only increase as our society becomes more dependent on computers and digitized information, and as technologies provide new and even more efficient ways to copy and distribute informational products.

Without effective legal protection, databases are easy prey for parasitic competitors who are free to unjustly—and harmfully—harvest the fruits of the creator's hard work. These risks are not limited to competitors' market-destructive acts. For example, *LaMacchia v. United States*⁴ demonstrates that non-competitors can engage in activities that inflict serious commercial harm on publishers. In *LaMacchia*, an MIT student uploaded commercial software (such as WordPerfect and Excel) onto an electronic bulletin board.⁵ He encouraged others to download these applications free of charge, and although unmotivated by any desire for pecuniary gain, his actions cost the affected software developers over \$1 million in losses.⁶ The indictment against *LaMacchia* was dismissed because he acted without the commercial motive required in cases of criminal copyright infringement.⁷ In response, Congress passed the "No Electronic Theft (NET) Act."⁸

Regrettably, data pirates of all stripes have little to fear because existing U.S. law does not effectively deter such blatantly unfair practices. It is time for Congress to fill this gap in U.S. law.

IV. The Gap in U.S. Law

Although existing legal doctrines—including copyright, contract, and misappropriation law—all offer important protections, they are insufficient, particularly in today's digital world, to deter database piracy effectively. As the Register of Copyrights, Marybeth Peters, told this Subcommittee in the last Congress:

While various bodies of law . . . protect database producers, each falls short in coverage. . . . *The bottom line is that in many circumstances there is no legal recourse for a database producer when the essence of the value of the database, and the core of its investment, are taken without permission or compensa-*

³ Appendix A contains examples of databases produced by CADP members. These examples help to illustrate the importance of these products to our society.

⁴ 871 F. Supp. at 535 (D. Mass. 1994).

⁵ *Id.* at 536.

⁶ *Id.* at 536-37.

⁷ *Id.* at 545.

⁸ Pub. L. No. 105-147 (1997). Significantly, the NET Act offers no protection to uncopyrightable databases.

tion. . . . Since *Feist*,⁹ the source and extent of legal protection for the commercially valuable contents of databases has been uncertain, requiring reliance on a patchwork of different, individually insufficient legal theories.¹⁰

New legal protection must be added to U.S. law to complement existing doctrines so that database creators will have the incentive to continue making the enormous expenditures necessary to produce, update and market reliable and innovative databases.

A. Copyright Law

For many years, database makers could take solace in the fact that some federal courts of appeals recognized the so-called "sweat of the brow" doctrine under which copyright protection was based on the compiler's significant hard work and investment in developing its compilation.¹¹ In those circuits, "sweat of the brow" afforded compilers an important tool against the unauthorized takings by "free riders." That is no longer the case.

In *Feist v. Rural Telephone Co., Inc.*, 499 U.S. 340 (1991), the Supreme Court discarded the sweat of the brow approach under copyright law and made it clear that a compilation will enjoy copyright protection *only* if it evinces sufficient "originality" in the manner in which its facts are arranged, selected or coordinated.¹² After *Feist*, the amount of time, effort and money expended by a compiler is irrelevant to a determination of whether or not a work qualifies for copyright protection.

Feist also noted both that facts were not copyrightable and even where protection exists for compilations, its scope is thin because it extends only to the original selection, arrangement and coordination of the database. The message given to the database community by *Feist* was clear: the factual contents of the database are not protected by copyright, and may be copied with impunity by data pirates.¹³

Lower court interpretations of *Feist* have caused additional reasons for consternation in the database community. First, inconsistent decisions have caused database owners to speculate whether a federal court will afford a particular compilation any copyright protection at all. Initially, some database creators thought that they could take solace in *Feist*'s statement that "the requisite level of creativity is extremely low; even a slight amount will suffice. The vast majority of works will make the grade quite easily. . . ." ¹⁴ Unfortunately, such has not always been the case. For example, two federal appellate courts have reached profoundly different results with respect to whether yellow page directories contain the necessary degree of originality to warrant copyright protection. Compare *Key Publications, Inc. v. Chinatown Today Publ'g. Enter., Inc.*, 945 F.2d 509 (2d Cir. 1991) (copyright protection held to exist) with *Bellsouth Adver. & Publ'g. Corp. v. Donnelley Info. Publ'g., Inc.*, 999 F.2d 1436 (11th Cir. 1993) (en banc) (coming to the opposite conclusion), *cert. denied*, 114 U.S. 943 (1994).

More recently, the United States Court of Appeals for the Eleventh Circuit set off alarm bells in the database community when it ruled against Warren Publishing, a CADP member, in *Warren Publ'g., Inc. v. Microdos Data Corp.*, 115 F.3d 1509 (11th Cir. 1997), *cert. denied*, 118 S.Ct. 397 (1997). The court denied any form of meaningful copyright protection to Warren's *Television and Cable Factbook*—a comprehensive directory of television and cable systems—despite the fact that the selection of cable systems in the *Factbook* used a unique definition of "cable system."¹⁵ This decision raises grave concerns that the level of originality required for copyright protection may be *far higher* than the Supreme Court's language in *Feist* reasonably implied.

Second, post-*Feist* cases underscore the fact even where compilations meet the originality test, copyright law provides only "thin" protection and wholesale copying of the contents of these labor-intensive works is condoned. As the Copyright Office's

⁹ *Feist Publications, Inc. v. Rural Telephone Service Co.*, 499 U.S. 340 (1991).

¹⁰ The "Collections of Information Antipiracy Act": Hearing on H.R. 2652 before the Subcomm. on Courts and Intellectual Property of the House Comm. on the Judiciary, 105th Cong., 1st Sess., Statement of Marybeth Peters, Register of Copyrights, at 3-4 (Oct. 23, 1997) (emphasis added) [hereinafter Peters Statement]. See also H.R. Rep. No. 105-525, at 6-8 (1998).

¹¹ Throughout the nineteenth and well into the twentieth centuries, U.S. courts consistently recognized copyright protection for labor-intensive works of information. . . . The "Collections of Information Antipiracy Act": Hearing on H.R. 2652 before the Subcomm. on Courts and Intellectual Property of the House Comm. on the Judiciary, 105th Cong., 1st Sess., Statement of Professor Jane Ginsburg, Morton Janklow Professor of Law, Columbia University, at 5 (Oct. 23, 1997) (footnotes omitted) [hereinafter Ginsburg Statement].

¹² See *Feist*, 499 U.S. at 345.

¹³ See *Id.* at 349 (describing the exposure of factual content to unauthorized copying).

¹⁴ *Feist*, 499 U.S. at 345.

¹⁵ *Warren Publ'g.*, 115 F.3d at 1520.

1997 Report on the Legal Protection of Databases states, "most of the post-*Feist* appellate cases have found wholesale takings from copyrightable compilations to be non-infringing. The trend is carrying through to district courts as well."¹⁶

Third, post-*Feist* cases give short shrift to two key characteristics typical of many valuable databases—their thoroughness and the human and financial resources expended in creating and marketing them.

The greatest irony of all is that the more thorough the database, the more time, money and effort that goes into making it—and hence the more valuable it may be to a user—the more likely it is a court will find it lacks the requisite degree of originality to qualify for copyright protection.¹⁷ This result is inconsistent with sound public policy.¹⁸

In sum, after *Feist* and the demise of the sweat of the brow doctrine, it has become increasingly clear that the copyright law is ill-equipped to protect informational products that are the result of substantial human, technical and financial resources.

B. Contracts

Although private contracts are very valuable in protecting the works of database creators, they do not provide protection at a level sufficient to induce the creation and distribution of diverse types of databases of the diversity that are increasingly in demand today. Contract law suffers from various infirmities, including:

- it does not provide legal relief against malfeasors who have not entered into a binding contract with a database provider. "Once the information is accessed by someone not bound by the contract, any control over misuse is lost irrevocably,"¹⁹ and
- it does not provide uniform coverage throughout the United States. While the contours of contract law are roughly equivalent across the 50 states, there are important variances among state contract schemes and there are circumstances under which the contract laws of two sister states may provide different results if applied to the same legal problem;²⁰ and
- state law solutions are of decreasing value given the global nature of electronic commerce.

C. Misappropriation

The common law tort of "misappropriation," derived from the Supreme Court's decision in *International News Service v. Associated Press*, 248 U.S. 215 (1918), has had an uneven history, at best, with respect to protecting copyrightable and uncopyrightable works from behavior that might fall under the general rubric of "copying."

Like the law of contract, the misappropriation doctrine is a creature of state law, and does not provide database providers with uniform, nationwide protection. In fact, the state misappropriation doctrine is even less uniform than state contract law. Moreover, state misappropriation laws may be available only in extremely narrow circumstances, particularly in light of the influential Second Circuit's recent decision in *National Basketball Association v. Motorola, Inc.*, 105 F.3d 841 (2d Cir. 1997). There the Court indicated that given the breadth of the Copyright Act's preemption provision, the misappropriation doctrine is only available in those special

¹⁶ United States Copyright Office, Report on Legal Protection of Databases at 17 (1997) [hereinafter Copyright Office Report].

¹⁷ Cf. *Warren Publ'g., Inc. v. Microdos Data Corp.*, 115 F.3d at 1518 (stating that by selecting the "entire relevant universe known to it," Warren made its directory commercially useful and therefore forfeited the protection of the Copyright Act).

¹⁸ Copyright Office Report, supra note 16 at 75 ("A database of meteorological, environmental or medical information, for example, must be comprehensive, accurate, and up-to-date, or the results could be injurious to health or safety. . . . Subjective selection or a unique arrangement may impede the database's utility or ease of access.")

¹⁹ The "Collections of Information Antipiracy Act" Hearings on H.R. 2652 Before the Subcomm. on Courts and Intellectual Property of the House Comm. on the Judiciary, 105th Cong., 2nd Sess., Statement of Robert E. Aber, Senior Vice President and General Counsel, the NASDAQ Stock Market, Inc., on behalf of the Information Industry Association, at 9 (Feb. 12, 1998). Moreover, it has been recognized that "Even contract law has significant limitations when mass-marketed information products are sold to persons not in privity with the makers." J.H. Reichman and Pamela Samuelson, *Intellectual Property Rights in Data*, 50 Vand. L. Rev. 51, 137 (1997).

²⁰ Compare *Bussard v. College of St. Thomas*, 200 N.W.2d 155 (Minn. 1972) (excluding evidence of prior negotiations when determining whether an agreement is integrated) with *Masterson v. Sine*, 436 P.2d 561 (Cal. 1968) (looking to all relevant circumstances including prior negotiations to determine whether an agreement is integrated).

and limited instances where, among other things, the information pirated is "time sensitive" or "hot news," and the defendant directly competes with the plaintiff.²¹

As a consequence, the doctrine's value to database producers is quite limited. Many databases do not disseminate "hot news," but instead contain information with far longer "shelf lives," in fact, the contents may be of historical, long-term value.²² Additionally, as Congress' recent consideration of the NET Act reveals,²³ commercial harm can be inflicted by competitors and non-competitors alike.

V. The Time for Congress to Act is Now

Mr. Chairman, the time for congressional action is now. Without appropriate legislative relief, the accumulated effects of domestically sanctioned piracy will cause the shrinkage of the U.S. database market, the loss of thousands of American jobs and the end of our worldwide preeminence in this area. Ultimately, everyone loses as the availability of valuable information products to the public decreases.

A. Technological Threats

The dawn of the Information Age has begun to change radically the way people do business. In "the old days," commercial customs developed over appreciably longer periods of time. If a user ordered a compilation from one of the CADP members, for example, it is very likely that papers would be exchanged and goods would be shipped according to terms which both parties understood from decades of trade usage.

Imagine now that same transaction occurring at the speed of light as contract offers, acceptance and performance occur not through the mails, but over fiber-optic networks. Commercial practice—whether scrupulous or not—develops at a pace exponentially greater than that of just a decade ago. By the same token, the destructive effects of piracy that we see right now soon will become much, much worse, as the gap in our current law—a gap that Register of Copyrights Peters stated "is leading to real world consequences"²⁴—becomes more and more apparent to database pirates.

Before long, the shortcomings of our legal framework will cause irreparable harm to the database marketplace. Creating floppy disks (or, for that matter, CD-ROMs) requires little or no overhead when compared to the cost of publishing and distributing a printed volume or of assembling the data in the first instance. In *Warren*, for example, the Eleventh Circuit held that the copyright law effectively allowed the defendant to appropriate the entire contents of the *Factbook*, from which it then made a competing product. Similarly, in the *ProCD* case, the defendant loaded the database onto the Internet, from whence it could be downloaded by anyone with the desire to do so. In *LaMacchia*, the harm caused to the software owners from one pirate exceeded \$1,000,000. Our current legal regime does not effectively deter such piracy, and fact patterns like those in *Warren* will proliferate unless Congress intervenes.

The harm created by database piracy does not fall on the shoulders of producers alone; it inures to the detriment of everyone. First, scientific and academic research will be curtailed. In the current database market, many producers charge a much lower access fee (if any) to nonprofit institutions such as universities, and recoup those losses in their sales to commercial entities.²⁵ Price differentiation makes economic sense, however, only if the for-profit market is secure and those who can acquire the database cheaply do not provide it to those who would otherwise have paid its original developer a higher price. As the cost of piracy becomes a greater part of doing business, this tiered pricing structure will level out—forcing database owners to charge colleges and libraries the same prices they ask of for-profit corporations. Protective legislation will preserve current pricing flexibility, to the benefit of database owners and users alike.

Second, as free-riders, database pirates—who have expended a fraction of the resources invested by the original compiler—cannot be expected to spend the monies

²¹ See *National Basketball Ass'n. v. Motorola, Inc.*, 105 F.3d 841 (2d Cir. 1997) (emphasis added).

²² See H.R. Rep. No. 105-525, at 11 (1998) (recognizing the commercial value of investments that need to be made in order to create databases). See also *infra* note 40 and appendix A (discussing examples of CADP members' historical databases).

²³ See discussion *supra* page 7.

²⁴ Peters Statement, *supra* note 10, at 5. See also H.R. Rep. No. 105-525 at 8 ("Already today, the lack of appropriate protection has begun to have a negative impact, with several court decisions that have resulted in serious damage to markets, and producers exhibiting a reluctance to make their products widely available over the Internet or in other easily copied formats.").

²⁵ The "Collections of Information Antipiracy Act": Hearing on H.R. 2652, Before the Subcomm. on Courts and Intellectual Property of the House Comm. on the Judiciary, 105th Cong., 1st Sess., Statement of Dr. Laura D'Andrea Tyson, Law and Economics Consulting Group, at 15 (Oct. 23, 1997).

necessary to update the contents they stole. The consequences of this failure to keep the data current could prove devastating, particularly in cases involving health, safety or environmental data. In contrast, legislative protection for these collections of information maintains an economic incentive for compilers to keep their products accurate, current, and comprehensive and helps reduce piracy by making it clearly illegal.

B. International Concerns

In March, 1996, the EU adopted a *sui generis* database protection directive.²⁶ The Directive constitutes an obvious effort by the EU to ratchet up its share of the world-wide database market, primarily at the expense of U.S. database providers. Under the Directive, in general, database companies outside of the European Union—such as those in the United States—gain no protection from the Directive's provisions unless their own countries provide a level of protection that the EU deems "comparable" to its own. Without comparable U.S. legislation, U.S. databases will suffer a significant competitive disadvantage in the huge EU market: databases from EU nations will enjoy the benefits of *sui generis* database protection and U.S. products will not.²⁷ If the U.S. does not act promptly, existing and future databases created in this country will be free for the taking in EU member states, while EU-produced products or those pirated by EU producers from the U.S. database market will be protected in the EU.

Consistent with the EU's requirements, many of the United States' major trading partners in the EU have already implemented comparable database protection laws. Belgium, Sweden, Austria, Denmark, Finland, Germany, Spain, France and Great Britain have all passed database protection legislation.²⁸ As time passes, however, the vulnerability of United States databases will not be limited to the EU alone. The U.S. may also suffer disadvantages in developing markets.

Many Latin American countries, for example, have bilateral reciprocity-based relationships with Spain, which will require the enactment of similar statutes. In addition, Eastern European countries, either in the interest of gaining admission to the EU, or as a result of bilateral agreements, will probably also pass database protection laws within the next few years. That was certainly the prediction of Dr. Jorg Reinbothe—the European Commission official overseeing the implementation of the Directive by EU member states—when he spoke at the spring 1998 conference on database protection sponsored by the U.S. Patent and Trademark Office.

A clear trend among the nations of the world will emerge towards the enactment of reciprocity-based database protection legislation, most likely containing much more restrictive terms of use than those present in H.R. 354. Prompt passage of a fair, effective database protection bill would enable the U.S. to counter this trend and continue its leadership role at the World Intellectual Property Organization in creating reasonable, workable treaties governing intellectual property rights.

C. The Handwriting Is On the Wall

Congress must act promptly—before domestic and international piracy undermines U.S. world leadership in database production.²⁹ As Congress recognized when it passed the Semiconductor Chip Protection Act, "a finding that an industry has done well in the past without legislative protection does not mean that threats to present and future investments fall outside Congressional concern."³⁰ Congress has no obligation to wait until the harmful ripples created by the gaps in current law become a tidal wave. As the Supreme Court recently noted, "[a]n industry need not

²⁶ The Directive embodies a two-tiered approach to database protection. First, it requires compilations to meet an "intellectual creation" standard in order to receive copyright protection. EU Directive, *supra* note 2, art. 3. Second, it creates *sui generis* protection for databases that prohibits the unauthorized extraction of substantial aspects of a database produced as a result of substantial investment. *Id.*, art. 7.

²⁷ It appears the only other option for non-EU databases to gain protection in the EU, given the somewhat ambiguous language in the Directive, is for their producers to create a substantial presence in Europe, at the expense of jobs in the United States.

²⁸ The Commission recently began the formal procedure for bringing legal action against the remaining six states. Those states not currently meeting their obligations can be expected to do so in the near future.

²⁹ Cf. H.R. Rep. No. 92-487, at 3 (1984) (describing with approval the U.S. semiconductor chip industry's position as a world leader, as well as the industry's stress on innovation and development-friendly pricing structures).

³⁰ H.R. Rep. No. 92-487, at 3 n.5. The position of database producers bears a striking similarity to that of semiconductor chip manufacturers. Cf. *id.* at 2-3 (describing how the cost of duplicating a chip design runs at less than one thousandth of the cost of original development); *id.* at 4 (describing how other bodies of law, such as patent and copyright, could not protect chip design).

be in its death throes before Congress may act to protect it."³¹ Recently, as part of the Digital Millennium Copyright Act,³² Congress added a new and unprecedented safe harbor for online service providers, intending to prevent any chilling effect that vicarious copyright liability would have on the growth of digital networks.³³ Enactment of this safe harbor was a pre-emptive strike by Congress; it passed despite a lack of case law or empirical evidence demonstrating that online service providers were "suffering" under the traditional, common law rules of secondary liability.

As the Register of Copyrights testified before this Subcommittee,

Congress has not historically required empirical evidence to legislate market conduct. This includes the area of intellectual property, where exceptions as well as rights have over the years been added, expanded or clarified based on individual cases or on concerns about future applications of the law. . . . Congress should be able to take steps to prevent future harm, before substantial damage is done to particular parties or, more importantly, the public interest generally.³⁴

In fact, in late 1997, the NET Act was enacted in direct response to a single federal court decision that exposed an important gap in U.S. law. More specifically, Congress passed the NET Act "to reverse the practical consequences of *United States v. LaMacchia*,"³⁵ which held . . . that criminal sanctions available under titles 17 and 18 of the U.S. code for copyright infringement do not apply in instances in which a defendant does not realize a commercial advantage or private financial gain."³⁶ Congress did not require proponents of the law to demonstrate "compelling empirical evidence;" it acted because the "practical consequences" of the *LaMacchia* decision would only worsen dramatically as technology continues to make piracy easier.³⁷

VI. Key Components of a Database Protection Bill

Mr. Chairman, since its formation in early 1997, CADP has made known its commitment to the adoption of balanced legislation that will deter piracy that causes commercial harm, but will not result in adverse consequences for scientists, educators, news gatherers, and other database users. Throughout this debate, CADP members have also urged that the provisions of any forthcoming legislation maximize the likelihood that the European Union will find a U.S. database law in conformity with the Directive, thereby ensuring that U.S. databases are protected in the European Union.

Early on, CADP also expressed its support for the *sui generis* approach contained in the EU Directive; the draft World Intellectual Property Organization ("WIPO") treaty; and then-Chairman Moorhead's bill in the 104th Congress, H.R. 3531. We also noted our initial uneasiness and uncertainty over the dramatic shift that H.R. 2652 represented from the *sui generis* approach. As we told this Subcommittee in the last Congress, we would have preferred instead that Congress use H.R. 3531 as its starting point—retaining its *sui generis* approach, but modifying that proposal to meet legitimate concerns and questions raised regarding that bill.

Nonetheless, our members now believe that the misappropriation approach adopted first in H.R. 2652 and now found in H.R. 354 is an approach that CADP can support. The misappropriation model contained in H.R. 354 contains the necessary framework for fair and effective domestic legislation. Its overall thrust is one with which we agree wholeheartedly: to protect investment in the production and distribution of valuable collections of information by prohibiting harmful misappropriations without chilling legitimate uses by news reporters, educators, scientists, librarians, consumers and other users.

We would like to share with the Subcommittee a number of specific comments with respect to H.R. 354.

³¹ *Turner Broadcasting Sys., Inc. v. Federal Communications Comm.*, 117 S. Ct. 1174, 1197 (1997).

³² Pub. L. No. 105-304 (1998).

³³ S. Rep. No. 105-190, at 19-20 (1998).

³⁴ Peters Statement, *supra* note 10, at 7.

³⁵ 871 F. Supp. 535 (D. Mass. 1994).

³⁶ H.R. Rep. No. 105-339, at 3 (1997) (internal citations omitted).

³⁷ *Id.* at 3-4.

A. H.R. 354 Contains the Essential Features of a Fair and Effective Database Protection Bill.

1. The heart of the bill—"prohibition against misappropriation"³⁸—would fill the gap in current law by providing database owners with the means to combat data piracy. There are several key facets to this provision, including its:

- recognition that collections of information that result from the expenditure of substantial monetary or other resources are deserving of legal protection separate and apart from the important, yet limited protection afforded such databases under current law;
- acknowledgment that commercial harm can be caused by competitors and non-competitors alike, and one need not have a commercial motive to inflict market damage;
- focus on the harm suffered by the plaintiff rather than the identity of the offending actor. While the bill contains numerous important, specific provisions limiting significantly the liability exposure of nonprofit users,³⁹ it does not give them a blanket exemption from liability;
- explicit statement that an extraction or use of a quantitatively insubstantial, but qualitatively substantial, part of a collection of information is actionable, where such extraction or use creates commercial harm. This provision recognizes that a use or extraction of a relatively small—but crucial—part of a collection can cause real harm to the owner's actual or potential market.

2. For compelling reasons, H.R. 354 rejects the suggestion that protection should be limited to "hot news" and recognizes that many collections of information are time sensitive and may have short shelf lives. A "hot news" limitation would severely undercut the efficacy of any federal misappropriation statute. For example, Warren Publishing's Factbook does not contain "hot news," and a federal law that extends only to time-sensitive factual information would be of no benefit to Warren and many other database publishers.

Instead of a "hot news" requirement, H.R. 354 was amended last year to include a maximum 15-year term of protection. This change was made despite the fact that unfair competition laws—including trademark and misappropriation statutes—historically have not had time limits because protection under these types of laws attaches only as long as the product or mark retains commercial value. Nonetheless, in response to concerns that the legislation could be read to provide perpetual protection, it was amended to require that a lawsuit must be brought within 15 years from the time the:

"investment of resources [was made] that qualified for protection that portion of the collection of information that is extracted or used. . . . [P]rotection will not be perpetual; the substantial investment that is protected under the Act cannot be protected for more than fifteen years. . . . [T]he provision avoids providing ongoing [perpetual] protection to the entire collection of information every time there is an additional substantial investment. . . ."⁴⁰

The 15-year term in H.R. 354 is very much a compromise provision. As drafted, this provision prevents database providers from exploiting fully those historical works whose commercial value exceeds the 15-year time limit,⁴¹ and does not in any way guarantee 15 years of protection. Protection exists only if the defendant's actions harm the market for the plaintiff's products and in no circumstance does it extend beyond 15 years from the time the qualifying investment was made.⁴² If the

³⁸ § 1402.

³⁹ For example, section 1403 of H.R. 354 permits nonprofit uses that do not "harm directly the actual market for the product or service." Thus, H.R. 354 draws a distinction between for-profit and nonprofit uses inasmuch as the former encompasses harm to the actual or potential market and the latter reaches only harm to the actual market. Moreover, if the nonprofit acted in good faith and within the scope of employment, section 1406(e) requires a reviewing court to reduce or remit damages entirely. The worst thing that can happen to a nonprofit which impermissibly uses database contents is that a court requires it to cease and desist.

⁴⁰ H.R. Rep. No. 105-525, at 21 (emphasis added).

⁴¹ For example, the Congressional Information Service ("CIS") compiles exhaustive lists of Senate and House reports, hearing records, and other executive and legislative material from the 1800s. Much of the investment that went into the huge task of rendering this sea of information usable was made before the bill's protection could attach. Nonetheless, CIS's databases have—and will continue to have—lasting historical and commercial value well beyond H.R. 354's abbreviated term of protection.

⁴² In this regard, CADP has no objection to the new language in § 1408 (c) of H.R. 354 designed to further clarify that the legislation shall not provide perpetual protection to collections of information.

product's commercial value has expired, the defendant's conduct cannot harm the plaintiff's market and is not actionable. Some databases will lose their commercial value long before the 15-year period expires. Thus, H.R. 354's 15-year term is the outer limit for protection, whereas copyright law guarantees copyright owners a far longer and fixed term of protection.⁴³

Mr. Chairman, CADP urges the Subcommittee to rebuff any attempts to shorten the 15-year provision and further inhibit the ability of various database providers to exploit their works. Such action would seriously threaten the legislation's probability of meeting the EU Directive's comparability requirement given the Directive's own 15-year term of protection.⁴⁴

3. H.R. 354 leaves facts in the public domain; it "does not allow the producer of a collection of information to 'lock up' individual pieces of information contained in the collection."⁴⁵ Specifically, it exempts the extraction or use of individual items of information and other insubstantial parts of collections of information—*unless* such acts occur *repeatedly* or *systematically* in a commercially harmful manner.⁴⁶ This subsection also makes clear that an individual item of information, including a work of authorship, shall not itself be considered a substantial part of a collection of information.

4. Section 1403(c) expressly permits a second comer to create independently its own database from the same sources as the original compiler. The second comer is prohibited only from free riding on the investment of the original compiler. In short, the bill supports fair competition in the marketplace.

5. H.R. 354 protects access to government information by excluding collections of information compiled by federal, state or local governments from protection. Section 1404(a) also expressly denies protection to a database produced under an exclusive contract between a government entity and a private party. Collections of information compiled by government employees, agents or licensees acting within the scope of their employment, agency or license are similarly exempted from protection. Databases produced at taxpayer expense are not protected by H.R. 354 and are free for all to acquire, store, and reproduce as they desire.

In addition, H.R. 354's careful and thoughtful demarcation of non-government information ensures that the public will have access to valuable products for many years to come. To encourage the wide dissemination of government data to the user community, the bill grants protection to value-added products containing government data, *but does not take the underlying government information out of the public domain*. No one is precluded from going to a government agency to obtain the underlying data. In addition, the bill correctly provides that the exclusion for government databases *should not* apply to information required to be gathered by securities, futures exchanges and clearing organizations operating under the "Securities and Exchange Act of 1934" or the "Commodity Exchange Act."⁴⁷ Without adequate protection for the data streams which provide vital trading information to large, medium, and, especially, small investors, the open distribution model used by these financial markets may contract drastically.

6. Section 1403(e) of H.R. 354 demonstrates the legislation's recognition of the "essential role that the press plays in our constitutional system."⁴⁸ This provision is intended to "neither inhibit legitimate news gathering activities nor permit the labeling of conduct as 'news reporting' as a pretext for usurping a compiler's investment in collecting information."⁴⁹ CADP strongly supports this provision in its current form; however, we would urge the Subcommittee to resist any effort to broaden this exemption. CADP is concerned that too broad an exemption for news reporting activities could lead to condoning activities that stray beyond traditional reporting and commercially harm the owner of a collection of information.

7. H.R. 354 expressly provides that the bill's protections in no way affect rights and remedies that may be available under other legal regimes, such as copyright and contract law. Section 1405 appears to ensure that result.

8. The bill evinces a keen sensitivity for the legitimate interests of the user community. To begin with, H.R. 354 recognizes that the normal day-to-day activities of

⁴³ The term is generally life of the author plus seventy years.

⁴⁴ See EU Directive, *supra* note 2, at art. 10 (term of protection) and art. 11 (reciprocity requirement).

⁴⁵ H.R. Rep. No. 105-525, at 14.

⁴⁶ § 1403(b).

⁴⁷ As the Committee Report accompanying H.R. 2652 noted, this provision is necessary to preclude these financial entities from being deemed agents or exclusive licensees of the Securities and Exchange Commission or the Commodities Futures Trading Commission. See H.R. Rep. No. 105-525, at 17.

⁴⁸ H. Rep. No. 105-525, at 16.

⁴⁹ *Id.*

many users, including librarians, scientists, students, researchers and educators, typically do not cause commercial harm and therefore simply are not subject to the bill. "[The legislation] would not, for example, prevent scientists from sharing data sets or publishing the results of their analysis of data, since such acts do not ordinarily involve use in commerce that would harm the market for the database."⁵⁰ A student preparing a course-related research project could, for example, routinely use part or even all of a database, inasmuch as such uses typically are not disseminated in a way likely to cause harm to the producer's market.

B. The pending legislation also contains a number of other provisions specifically protective of the interests of the user community, especially nonprofit entities. In addition to the provisions mentioned above,⁵¹ H.R. 354 contains myriad other provisions designed to protect user interests.

1. H.R. 354 effectively incorporates prongs of the fair use test in § 107 of the Copyright Act—separate and apart from the newly added reasonable uses provision. For example, the amount and substantiality of the portion used and the effect of the use upon the potential market are elements of the cause of action created by the bill. However, unlike copyright law where fair use is an affirmative defense, under H.R. 354 the burden is on the plaintiff to prove: (1) the existence of the taking of a substantial portion of his or her collection; and (2) harm to the plaintiff's actual or potential market.⁵²

2. The current bill allows scientists and others to make use of databases for the purpose of internal verification.⁵³ "This permitted act may be of particular importance to scientists and other researchers, ensuring that they can check the results of their research, despite the fact that doing so may entail the use of an entire database."⁵⁴

3. H.R. 354 contains special liability rules governing nonprofit violators. If a nonprofit employee violates the bill while acting within the scope of employment, but believes that his actions were lawful, a court *must* reduce or eliminate any damages awarded.⁵⁵ As a result, in "good faith" cases, courts will not award monetary awards, but will only enjoin the entity from continuing their harmful activities.

4. The current bill requires a database producer who brings a "bad faith" lawsuit against a nonprofit to pay the nonprofit user's court costs and attorney fees.⁵⁶

5. H.R. 354 exempts librarians, educators, or researchers acting within the scope of employment from any criminal penalties.⁵⁷

6. The current bill permits federal and state educational institutions to claim protection for their databases even if they are taxpayer-funded.⁵⁸

7. H.R. 354 allows users—for-profits and nonprofits alike—to continue to license information products from database makers.⁵⁹

8. H.R. 354 exempts from liability those collections of information gathered, organized or maintained to access, transmit or store online communications.⁶⁰ Thus, the databases which are used by Internet servers to aid in the functional operations of the Internet retain their current legal status.

⁵⁰ H.R. Rep. No. 105-525, at 13.

⁵¹ See, e.g., § 1404(a) (no protection for government compiled databases); § 1403(b) (no protection for individual items and insubstantial parts); § 1403(a)(1) (nonprofits liable only for acts that harm directly the actual market for the product or service); and § 1403(e) (exception for news reporting).

⁵² H.R. 354 § 1402 (Prohibition against misappropriation); see also Peters Statement, *supra* note 10, at 7 (discussing that the prerequisites of "substantial part" and harm to the "actual or potential market" are not elements of an affirmative defense).

⁵³ § 1403(d).

⁵⁴ Peters Statement, *supra* note 10, at 7. See also H.R. Rep. No. 105-525, at 14-15.

⁵⁵ § 1406(e).

⁵⁶ § 1406(d).

⁵⁷ § 1407(a)(2).

⁵⁸ § 1404(a)(1).

⁵⁹ § 1405(e). It's worth repeating here that licenses with nonprofit institutions often allow access at prices substantially below those paid by their commercial counterparts, and are frequently free of charge. See Copyright Office Report, *supra* note 16, at 25 (noting that database producers either charge nothing or charge "greatly reduced fees" to nonprofit and educational users).

⁶⁰ § 1404 (c). CADP believes that as currently written, this provision is overbroad. It could be read to exclude collections of information regarding the Internet itself, such as a directory of web links. Therefore, we urge the Subcommittee to amend this provision as follows: on page 9, line 9, delete all that appears after "maintained" and insert in lieu thereof the following: "to perform the function of addressing, routing, forwarding, transmitting, or storing digital online communications or the function of receiving connections for digital online communications."

C. Given the many changes made in the legislation in the last Congress to accommodate the interests of database users, any additional changes must be viewed with great care and caution.

Mr. Chairman, as you are well aware, the "Collections of Information Antipiracy Act" was amended time after time in the 105th Congress in response to concerns raised by the user community. CADP did not object to those changes. Our members supported the final version of the Collections of Information Act that was passed twice by the House in the last Congress. That version was fair and effective; it carefully balanced the legitimate interests of database users and providers.

We are wary, however, that other changes beyond those incorporated into last year's final bill may upset that fragile balance. We cannot so dilute the legislation as to (1) undermine its effectiveness as a tool against database piracy; or (2) risk comparability with what is becoming the world standard—the EU Directive. Thus, we remain fully committed to working with the Subcommittee and other interested parties in resolving any additional legitimate concerns that may persist, but must review any new changes with special care and caution. The database community cannot—and will not—accept just any legislation.

In that regard, we are weighing carefully your new "fair use" language.⁶¹ We recognize that there is interest in the Administration and the user community for a new provision governing fair or transformative uses. Clearly, the burden is on the proponents to demonstrate why the new language is needed. This burden should not be met by vague claims about how the old language fails to protect their ability to make "transformative," or "value-added" uses of the hard work of the original compiler.⁶² If a second compiler "creates" a new product by using a substantial portion of a protected collection of information *and* that use harms the market for the original collection, then such use should be actionable. Users should not be free under the guise of "transformative," or "value-added" actions to make market-destructive uses of another's collection. Should the Subcommittee determine that a new "fair use" provision is needed, we will work with the Subcommittee and other interested parties to perfect the language in § 1403(a)(2).

Mr. Chairman, we understand that there is a continuing interest among skeptics of the bill in deleting or altering the reference to "potential market" in H.R. 354. CADP adamantly opposes deletion of the "potential market" language from the bill. The legislation *must* provide protection against harm to potential, as well as actual markets. Business people need to plan ahead. Consideration of potential markets and derivative uses of database products are highly relevant factors when a business decides to proceed with a particular project. As the Register of Copyrights told this Subcommittee in October, 1997:

[L]ooking only to actual markets would be too restrictive; those who invest in creating information products should have some leeway to recoup their investment over time by exploiting those products in various markets.⁶³

It is essential that the "potential market" prong be retained in the legislation.

Moreover, we will approach any change to the bill's "potential market" language with care and caution, especially given that the legislation was amended last year to provide that harm to a potential market is only a consideration with respect to for-profit uses. This is a significant change inasmuch as the ability to market to a potential market is a relevant consideration in business planning, irrespective of whether such a market is for-profit or nonprofit in nature. It impacts directly on those database providers both in and out of CADP whose primary markets are nonprofit—such as those who market to educational institutions.

Nonetheless, in an effort to reach consensus on this legislation and speed it toward enactment, in the past, CADP has expressed a willingness to consider the deletion of the reference to "current and demonstrable plans" from the definition. CADP is willing—albeit with some reluctance and trepidation—to once again consider such a deletion. We believe that this change, combined with the existing case law interpreting the phrase "potential market," should put to rest all concerns regarding the breadth of this phrase.

⁶¹ § 1403 (a)(2).

⁶² For example, proponents of this type of change should demonstrate why it is needed given that (1) H.R. 354 already contains the elements of fair use like provisions, *see, e.g., supra* pages 33–36, and (2) the bill does not prohibit: (a) any use or extraction that does not harm the collection's market; or (b) any use where any resulting harm is indirect or collateral. *See, e.g., H. Rep. No. 105–525 at 8* (discussing that the legislation is not intended to cover indirect harm to the market for a product).

⁶³ Peters statement, *supra* note 10, at 13–14.

VII. Congressional Power

Mr. Chairman, we believe a review of the text of the Constitution and relevant case law reveals ample authority under the Commerce Clause (Art. 1, §3, cl. 3) to support congressional enactment of legislation such as H.R. 354. In the past, Congress has used its Commerce Clause power in virtually every area of federal legislation ranging from civil rights to environmental to trademark legislation. Applying this power in the current context is entirely consistent with past congressional exercises of that authority. The constitutional history of our trademark laws provides an extremely apt illustration of Congress's exercise of its Article I, section 3, cl. 3 power.

Although it is now firmly established that the Commerce Clause forms the constitutional source of power undergirding our trademark law, that was not always the case. In fact, that law was voided by the United States Supreme Court in its landmark 1879 decision, the *Trade-Mark Cases*, 100 U.S. 82 (1879). According to the Court, the first trademark law unconstitutionally premised trademark protection on the Patent/Copyright Clause of the Constitution because trademarks were neither "discoveries nor writings" as required by Art. 1, §8, cl. 8. Significantly, all subsequent federal trademark laws have been premised on the Commerce Clause.⁶⁴

Congress may use its power under the Commerce Clause to enact legislation such as H.R. 354. Trademarks are indicia of origin that regularly travel in and affect interstate commerce. It seems equally clear that collections of information are items of commerce and it is beyond debate that the U.S. database community provides a wealth of these informational products to users both here and abroad. Just as Congress has chosen to protect trademarks under the Commerce Clause, it has the power to protect valuable compilations that are the product of substantial effort and money from harmful misappropriations.

VIII. Conclusion

Mr. Chairman, American database producers need legislation to protect them, and we need it now. Our goal is not to "lock up" data, or prevent access to information; it is to protect our work product from the commercial harm caused by free riders and thereby assure the continued availability of valuable resources. Your bill represents a welcome and important step towards accomplishing that goal. We look forward to working with you and your colleagues in enacting a database protection quickly. Thank you for giving us the opportunity to share our views with you.

APPENDIX A

1. WARREN PUBLISHING, INC.'s *Television and Cable Factbook*. The *Factbook* is a directory containing business profiles of all U.S. cable TV systems, licensed broadcast video facilities (i.e., full-power TV stations) and related industries and services (program suppliers, equipment manufacturers, regulatory agencies, *et al.*). The *Factbook* is comprised of 3 volumes totaling more than 5,000 pages annually and also is available on CD-ROM.

In addition to the print products, the databases used to produce the *Factbook* are widely used by various sectors of the U.S. telecommunications business and academic communities. Warren Publishing makes electronic sales of the *Factbook* databases to clients for analyses on their own computers, and performs customized analyses upon commission by clients.

Warren Publishing assigns 18-20 full-time employees to the *Factbook*. They gather, verify, edit and format data for use in both the print and electronic versions. Two other people are employed full-time for sales and fulfillment of customized reports and databases, representing more than one-third of Warren's total workforce. In addition, Warren Publishing annually hires an average of 10 independent con-

⁶⁴Significantly, just three years ago, Congress used its Commerce Clause powers to enact a form of unfair competition legislation to protect intangible rights in investment from misappropriation or "free-riding." In 1995, it passed the "Federal Trademark Dilution Act," Pub. L. No. 104-98, which prohibits the use of a famous name in a manner that dilutes the name despite the absence of consumer confusion:

Even in the absence of confusion, the potency of a mark may be debilitated by another's use. This is the essence of dilution. Confusion leads to immediate injury. While dilution is an infection which, if allowed to spread, will eventually destroy the . . . mark. The concept of dilution recognizes the substantial investment the owner has made in the mark and the commercial value and aura of the mark itself, protecting both from those who appropriate the mark for their own gain. H.R. Rep. No. 104-374 at 3 (1995) (emphasis added).

The Commerce Clause provides the constitutional basis for the anti-dilution statute; it does the same for the Collections of Information Antipiracy Act.

tractors to input data from returned *Factbook* questionnaires. Warren spends tens of thousands of dollars and man-hours each year on original research conducted through mailed questionnaires and telephone surveys.

2. REED ELSEVIER'S *MDL Information Systems* ("MDL") produces a range of databases that, taken together, offer chemists an electronic library that covers chemical suppliers and pricing, handling and safety information for 100,000 chemical products, organic chemistry syntheses and preparative methods, xenobiotic transformations and compounds, and structural and biological activity data for 70,000 drugs. MDL is a U.S. based company with more than 330 employees worldwide that creates, produces and distributes databases and computer programs used around the globe by, among others, the pharmaceutical and chemical industries, as well as by government and education organizations involved in basic scientific research.

3. THE THOMSON CORPORATION'S *POISINDEX*. This invaluable database provides medical professionals, usually emergency room physicians or poison control specialists, with immediate access to comprehensive listings of toxicological information—a crucial tool to complement their years of experience and training. Authorized users have unlimited access to this information at their own facilities 24 hours a day, 365 days a year. *POISINDEX* enables them, for example, to identify a substance that a child may have ingested and then to provide instructions for critical, immediate care. Treatments guided by this specialized database have helped save thousands of lives since *POISINDEX* was created over twenty-three years ago.

POISINDEX contains about 1,000,000 entries describing substances such as drugs, chemicals, commercial and household products and biological materials. More than 30 professionals with training in nursing, pharmacology, toxicology and medicine are responsible for reviewing these substances and obtaining pertinent information on them. In addition, more than 200 practicing clinicians from over 20 countries participate in the editorial process as members of the *POISINDEX* editorial board. The database lists each substance and up to four full-text documents detailing its clinical effects, treatment measures, degree of toxicity and other relevant information. Software engineers develop computer software to store, edit, sort and retrieve the data and to maintain, test, produce and support the database.

4. SKINDER-STRAUSS ASSOCIATES' *Lawyers Diary and Manual*. Attorneys in New Jersey, New York, Massachusetts, Florida and New Hampshire routinely use the *Lawyers Diary*, or Red Book, as their daily reference and directory for information regarding courts, judges, government agencies, and the members of the bar. Practicing lawyers rely upon its comprehensive and accurate databases to assist them with their day-to-day communications, and many regard the Red Book as their most essential source for this information. A third-generation, family-owned business, Skinder-Strauss has more than 40 full-time employees who are actively engaged in the daily activities of data collection, verification, editorial compilation, research and data entry. The various databases managed by the company require contact with more than 400,000 individuals and entities at least once a year. All contact and verification research is initiated by the company through extensive direct mail, telemarketing and other proactive efforts. These initiatives involve the expenditure of significant sums, thousands of man-hours and the pride and dedication of those so engaged.

5. PHILLIPS BUSINESS INFORMATION, INC. provides a broad range of information products for distinct business markets, including more than 35 directory and directory related products. For example, the Phillips Satellite Industry Directory and accompanying Satellite Industry Directory Buyers Guide is just the type of informational product that, given the fast growing satellite marketplace, is vital to maintaining our leadership in the global arena. It links the reader to more than 6,000 decision-makers in satellite operations, equipment manufacturing, transmission service, broadcasting, and more.

The directory also provides users with exhaustive industry profile sections which include service offerings, key personnel, and contact information. It also offers easy-to-use index pages detailing satellite systems, satellite operators, services offered, and geographic locations, and includes listings of industry regulators, agencies and companies providing satellite products and support services. In addition, Phillips' Satellite Industry Directory is the first to offer a web site index to leading companies in the satellite industry.

Compiling this directory requires one full-time project manager and up to one dozen freelance researchers to gather, inspect, and update more than 6,000 names, addresses and telephone numbers, plus an independent contractor to assist with programming.

6. THOMAS PUBLISHING CO., located in New York City, has published industry information products for a century. Its 400 employees, with a payroll of more than \$21,000,000 per year, publish 24 major buying guides, 29 product news magazines,

two product information exchange services, a magazine on factory automation, three software comparison guides, and a publication to help buyers select the most cost-efficient transportation modes for their inbound freight. Its *Register of American Manufacturers* compiles purchasing information about 155,000 companies, classified under more than 60,000 product and service headings.

The Thomas directories are primarily supported by advertising. In that connection, independent entities throughout the United States solicit advertising orders, provide advertising related material, as well as editorial information to the company. Those organizations are paid in excess of \$50,000,000 for their services.

7. THE AMERICAN MEDICAL ASSOCIATION'S (AMA) *Physician Masterfile*. This comprehensive database contains information regarding approximately 800,000 physicians, including both AMA members and non-members. Its physician demographic data—including state medical licensing and educational information—helps protect the public from fraud and abuse by enabling the ready confirmation of the credentials of those holding themselves out as physicians. The *Physician Masterfile's* unique physician identifiers allow many industries to bring up-to-date information to physicians regarding the availability of new drugs and their side effects, and to protect the public in the event of drug recalls by the Food and Drug Administration.

8. THE MCGRAW-HILL COMPANIES is a global publishing, information, media, and financial information services conglomerate with 16,000 employees located in over 40 states and 30 countries. The McGraw-Hill Companies has developed and publishes a significant number of databases for the education, construction, business, industry, financial and professional markets, which are available in print or electronically through online services, over the internet or on CD-ROM. Millions of professionals, analysts, researchers, investors and students rely on databases produced by The McGraw-Hill Companies to make critical decisions.

For example, the Standard & Poor/DRI's US Central Database (USCEN) includes 23,000 series of U.S. economic, financial and demographic statistics. Coverage includes data on U.S. trade, population, production, income, housing, employment, and finance. USCEN is one of the largest available economic databases in the world. Substantial collections of information begin in the 1940's; some date as far back as 1900. Major private source data from both DRI and third-party sources—including public information—gives the database added value. Like many of Standard & Poor/DRI's economic databases, there is significant commercial value associated with access to complete and accurate historical data, particularly when analyzing trends in the economy over time.

9. THE NEW YORK STOCK EXCHANGE, INC. ("NYSE") is the world's largest stock exchange for the trading of equity products. As an agency-auction market, the NYSE brings together public buyers and public sellers, giving both the maximum opportunity to interact and trade directly with each other without the unnecessary expense of first having to trade with a dealer. By bringing all buyers and sellers together at a central location, the buyers and sellers interact to arrive at a point where the highest bidder meets the offer of the lowest seller, thereby achieving efficient pricing that is the standard relied upon worldwide. Prices and quotations for 3,400 listed securities are dynamically updated and made available to thousands of vendors, broker-dealers and investors and to over 100 countries.

The NYSE licenses⁶⁵ its real-time database to brokerage houses and on-line securities traders; market data vendors such as Reuters and Bloomberg, television networks like CNBC, dozens of internet sites, and individual investors. Moreover, NYSE has helped set an industry trend of disseminating market data to the widest possible audience. For example, in 1997, it was the first market to make real-time market data available on cable television. Non-professional investors can receive NYSE real-time market data for \$5.25 month. In addition, market data more than 15 minutes old is available without charge on the NYSE's website (www.nyse.com), as well as numerous other internet sites.

Mr. COBLE. Thank you, Ms. Winokur.
Professor Lederberg.

⁶⁵ As a market for securities, NYSE must make its data available pursuant to Section 11A of the Securities and Exchange Act of 1934, and its contracts for the provision of real-time data streams are monitored closely by the SEC. The SEC approves the contracts and the fees that the NYSE charges for market data, requiring that the Exchange make its market data available on terms that are fair, reasonable, and not unreasonably discriminatory.

STATEMENT OF JOSHUA LEDERBERG, PROFESSOR, SACKLER FOUNDATION SCHOLAR, THE ROCKEFELLER UNIVERSITY

Mr. LEDERBERG. I'm grateful, Mr. Chairman, for this opportunity to comment on behalf of the National Academy of Sciences, the National Academy of Engineering, and the Institute of Medicine, [the "Academies"], as well as the Association for the Advancement of Science. Our written testimony for the record will elaborate on the legal issues.

With my own voice I offer you the perspectives of a professor, former president of Rockefeller University, from a long career as a researcher in molecular genetics and bioinformatics, as an advisor to Government science agencies and scientific publishers; and not least as a creator and active user of both commercial and not-for-profit scientific databases. I've been an advisor to some of these enterprises, including some that Ms. Winokur is very familiar with but I'm here formally representing only the Academies and the AAAS.

Access free of unreasonable incumbrance to and use of factual data is essential for furthering our understanding of nature, the medical and technical progress to the validation of scientific claims and the kinds of things Ms. Winokur was just talking about. Indeed, the currently thriving public domain for data fostered by Government policies that nourish research and guarantee full and open access to data benefits all downstream users, including the commercial database industry.

At this time, barring instances of gross piracy, there is no crisis in the development of new databases, commercial or otherwise. Significant legal, technical and self help protection measures to protect proprietary databases are already available. We support the adoption of new diplomatic initiatives and new legal measures as may be needed to address egregious wholesale database piracy. However, we are opposed to responses to those grievances which go beyond solving that problem and would erect unprecedented and unjustified new rights in factual data. These would undermine our Nation's successful research and education system and put a heavy hand on the scale of legitimate competing interests.

We appreciate the changes to H.R. 354 since last year's bill but along with the administration and other critics—and I was particularly impressed by Mr. Pincus's testimony—we find that the legislation as currently proposed still needs some remediation.

Our objections to H.R. 354 in its current form include an overly and unnecessarily broad scope of protection for factual data, one that would supersede copyright for collections of works of authorship; an insufficient carve-out for not-for-profit scientific and educational users; an incomplete Government data exemption, particularly for Government databases disseminated by the private sector; the retroactive application of the legislation; the unduly long term of protection in light of the breadth and depth of the scope of protection; the blanket prohibitions on traditional, legitimate commercial, value-added uses; the lack of reasonable limitation on the inordinate market power conferred by this legislation on sole source data providers; and absent or vague definitions of important terms.

There was reference to understanding *ex ante* what the boundaries of the legislation would be. I will confess to understanding

what *ex ante* means perhaps unique among my biological colleagues, but I also feel that I need advice of counsel in trying to understand exactly what is and what is not permitted and that's the core of many of the problems that we face here.

Together with a broad cross section of research, education, library and consumer groups, as well as many commercial publishers and database providers, to encourage legislation we prefer alternative legislation such as The Database Fair Competition and Research Promotion Act of 1999. That targets database piracy by focusing on true unfair competition principles without creating unprecedented new property rights in data and unwarranted controls in downstream uses of data, maintains a reasonable balance between the interests of database producers and users, including legitimate and economically important value adding activities, preserves essential public interest uses, including customary scientific, educational and library activities, adheres to our Constitutional principles and provides protection against monopolistic pricing by sole source data vendors in situations where competition breaks down as a preferred approach to balancing economic interests.

If this simpler and properly focused alternative is not taken then a much more complex bill like the one that was in the course of being drafted in the Senate Judiciary Committee negotiations last summer would need to be used.

The Academies and the AAAS remain committed to working with Congress and with you on developing a well reasoned and balanced database protection bill that serves the interests of our Nation.

Thank you.

[The complete statement of Mr. Lederberg follows.]

PREPARED STATEMENT OF JOSHUA LEDERBERG, PROFESSOR, SACKLER FOUNDATION SCHOLAR, THE ROCKEFELLER UNIVERSITY

INTRODUCTION

My name is Joshua Lederberg. I have been asked to testify on behalf of the U.S. National Academy of Sciences, National Academy of Engineering, Institute of Medicine (the "Academies"), and the American Association for the Advancement of Science (AAAS). As you know, the three Academies were chartered by Congress to provide advice to the federal government and to the nation on scientific, technical, and medical issues. The AAAS is the umbrella organization for over 250 professional scientific and engineering societies in the United States, with more than 140,000 individual members. I was elected as member of the National Academy of Sciences in 1957 and am a charter member of the Institute of Medicine. I also am Fellow of the AAAS. My biographical summary is attached at the end of this statement.

I am grateful to have the opportunity to testify to you today about H.R. 354, the "Collections of Information Antipiracy Act." This proposed legislation concerns a topic about which the Academies, the AAAS, and indeed the entire research and education community, have an abiding interest and continuing concerns. It also is one that I have had the opportunity to consider from several pertinent perspectives: as a professor and former president at Rockefeller University; as a Nobel prize winning researcher in molecular biology, genetics, and bioinformatics; as an adviser to government science agencies and to scientific publishers; and not least as a creator and user of both commercial and nonprofit scientific databases. I remain an adviser to such enterprises, but I am here formally representing only the Academies and the AAAS. Nevertheless, it is this integration of perspectives and interests from the private sector, government, and academia that I believe is so important to balancing the interests in the pending legislation of both original database creators and providers on the one hand, and of all downstream users on the other.

I would like to make several points in this testimony:

- Access to factual data is essential to furthering our understanding of nature, to medical and technical progress, and to the validation of scientific claims.

The essence of the scientific method is relentless critical discourse; without it, the authenticity of knowledge claims rapidly deteriorates. Indeed, a thriving public domain for data, fostered by government policies that guarantee full and open access to data, benefits all downstream users, including the commercial database industry.

- One of the major drivers for new database legislation in the United States is the reciprocity clause of the European Union's Directive on Databases. As discussed below, the Directive imposes strong economic and legal restrictions on the conditions of availability and use of factual data in databases in Europe. The Directive could have adverse consequences not only in Europe, but for cooperative U.S.-E.U. academic endeavors. Before adopting equivalent strong and unprecedented database protection in our country to satisfy a European reciprocity provision of questionable validity, it is essential to consider carefully the underlying rationale and potential impacts to our research and education base and to our economy.
- Significant legal, technical, and self-help protection measures to counter database piracy are already available. There is no evidence of a crisis in the development of new commercial databases. While we support the adoption of new measures that are designed to address specific problems, such as wholesale database piracy, we are opposed to the creation of unprecedented and unjustified new rights in factual information that do not balance the legitimate competing interests.
- Although we appreciate the two changes that were made to H.R. 2652 in H.R. 354, we find the bill as currently proposed to be unacceptable. We would like to draw the Committee's attention to the legislative proposal, "The Database Fair Competition and Research Promotion Act of 1999," which we support, as well as to the progress made on achieving a compromise on H.R. 2652 in negotiations sponsored by the Senate Committee on the Judiciary last summer.
- The Academies and the AAAS remain committed to working with Congress on crafting a well reasoned and balanced database protection bill that serves the interests of our nation, and not just one segment of the publishing community.

I also would like to note at the outset that we are introducing into the official record several attachments to this testimony. The first, labelled Appendix A1, A2, and A3, presents an abridged selection of the Academies' analytical summaries and alternative proposals to Title V of H.R. 2281, the successor bill to H.R. 2652, which were submitted during the Senate Committee on the Judiciary negotiations last summer. The second is a September 4, 1999 letter from Professor Harvey Perlman of the University of Nebraska Law School to Senator Orrin Hatch about unfair competition law.

THE NEED TO MAINTAIN OUR TRADITIONAL PUBLIC DOMAIN FOR FACTUAL DATA

Scientific and engineering research drives our nation's progress. Society uses the fruits of such research to expand the world's base of knowledge and applies that knowledge in myriad downstream applications to create new wealth and to enhance the public welfare. Indeed, the policy of the United States has been to support a vibrant research enterprise and to assure that its productivity is exploited for national gain. Thus, freedom of inquiry, the open availability of scientific data, and the open publication of results are cornerstones of our research system that U.S. law and tradition have long upheld.

The consequences of these wise policies has been spectacular. For many decades, the United States has been the leader in the collection and dissemination of scientific and technical data and in the discovery and creation of new knowledge. Our nation has used that knowledge more effectively than any other nation to support new industries and applications, such as the biotechnology industry and the discovery of new diagnostics and cures for hereditary and other diseases.

A necessary component of these past and continuing achievements has been the wide availability of scientific and technical data and information, ranging from raw or minimally processed data to cutting-edge research articles in newly developing fields. This information has been assembled as a matter of public responsibility by the individuals and institutions of the scientific and engineering communities, largely with the support of public funding.

Data are the building blocks of knowledge and the seeds of discovery. They challenge us to develop new concepts, theories, and models to make sense of the patterns we see in them. They provide the quantitative basis for testing and confirming theories and for translating new discoveries into useful applications for the benefit

of society. They also are the foundation of sensible public policy in our democracy. The assembled record of scientific data and resulting information is both a history of events in the natural world and a record of human accomplishment.

The recent advent of digital technologies for collecting, processing, storing, and transmitting data has led to an exponential increase in the size and number of databases created and used. A hallmark trait of modern research is to obtain and use dozens or even hundreds of databases, extracting and merging portions of each to create new databases and new sources for knowledge and innovation. However, not only researchers and educators, but all citizens with access to computers and networks, constantly create new databases and information products for both commercial and noncommercial applications by extracting and recombining data and information from multiple sources. The rapid and continuous synthesis of disparate data by all segments of our society is one of the defining characteristics of the information age. The ability of individuals and organizations to use information in a wide variety of innovative ways is also a measure of success of the original data-collection efforts.

Progress in the creation and use of new knowledge for the national good depends both on the full and open availability of government and government funded data, and on fair and equitable availability of data from the private sector. By "full and open" we mean that data and information derived from publicly funded research are made available with as few restrictions as possible, on a nondiscriminatory basis, for no more than the cost of reproduction and dissemination. Fair and equitable availability of data from the private sector means that if commercial content providers receive enhanced protections in their databases, that preferential terms of access to and use of those data by researchers, educators, libraries, and other public-interest entities, firmly rooted in our Constitution and legal tradition, are retained and, when necessary, adapted to the digital and online environment. Moreover, legal rules must ensure that private firms cannot by contract and market power override the traditional Constitutional rights of access and use by the research and educational communities.

WHY THE UNITED STATES SHOULD NOT BE COMPELLED TO FOLLOW A FLAWED EUROPEAN MODEL FOR DATABASE PROTECTION

It is our view that any domestic legislation, such as H.R. 354 (or its predecessor drafts in this Committee), that seeks to impose the same or "equivalent" legislation to the E.U. Directive on Databases would be unacceptable. The *sui generis* Database Directive, adopted by the European Communities in March 1996, is an inappropriate model for the United States because of the following major problems:

- The creation of an unprecedented, absolute exclusive property right in the contents of databases, which would decrease even public-interest access to data and reduce competition;
- An overbroad definition of databases that potentially includes every information product that has heretofore been freely available from the public domain;
- The use of other undefined terms and concepts, creating significant uncertainties in the law's scope and application;
- The introduction of long and potentially perpetual terms of protection, with a resulting possibility of no evolving public domain from which previously compiled data could be freely used;
- The absence of sufficient public-interest exceptions for the preservation of public-good activities such as research, education, and libraries, as well as significant curtailment of other users' rights;
- No mandatory legal licenses or other limitations requiring sole-source providers to make data available on reasonable terms and conditions, with due regard for the preservation of competition and the public interests of research and education; and
- The introduction of strong civil (and possibly even criminal) penalties for infringement that likely would have a chilling effect on the full and open exchange of data for research and educational purposes.

It is important to emphasize that these unwarranted restrictions have been placed on access to and subsequent uses of *factual data*, which traditionally have been in the public domain and, for good reason, have not been covered by copyright or other exclusive rights. Moreover, these restrictions apply as well to collections of "works of authorship" such as journals, textbooks, and anthologies, thus superseding copyright protection. In the case of the research and educational communities, the potential negative effects are exacerbated by the fact that most sources of scientific data

are natural monopolies, either because the data contents are unique and not reproducible, as in the case of all observational data of transitory natural phenomena, or they are generated for esoteric niche markets that have a customer base too small to support more than one producer or supplier.

Our concerns are further amplified by the fact that the *sui generis* restrictions apply as well to publicly funded data in Europe and that this could lead to tremendous strains, or even the breakdown, in certain areas of scientific cooperation between the United States and Europe. Such cooperation is becoming increasingly important for accelerating scientific progress and for sharing costs in such areas as genomic research and global remote sensing studies, yet signs of this tension are already appearing in these important areas of research.

It is possible that the E.U. Directive's reciprocity clause will be found to violate the terms of existing intellectual property and trade conventions regarding national treatment of law requirements. However, even if a legal challenge to the reciprocity provision were to fail, other countries, especially those in the developing world, may begin to institute their own *sui generis* intellectual property rights without national treatment, and discriminate against foreign innovators. Such a result could quickly undermine the now universal norm of national treatment, which was a principal goal of the recent TRIPS agreement under GATT. Thus, the mere fact that the E.U. has adopted a flawed new legal regime for database protection and coupled it with an unwise, and possibly illegal, reciprocity requirement should not induce the United States to emulate it. Rather, our government should challenge the reciprocity provision and independently craft legislation that targets database piracy in a manner that reasonably balances all legitimate interests.

LEGISLATIVE ALTERNATIVES TO H.R. 354

We are pleased that the process of deliberating major changes to the U.S. intellectual property law for databases has become more open and appears to have slowed to a rational pace, that the E.U.'s *sui generis* model is no longer the sole option under consideration, and that the participation by representatives of major potentially affected end-user groups, as well as by a broader cross-section of the commercial database and information services industry, has become institutionalized. We especially wish to draw your attention to an alternative legislative approach, "The Database Fair Competition and Research Promotion Act of 1999," which was introduced into the Congressional Record by Senator Orrin Hatch, Chairman of the Senate Committee on the Judiciary, on January 19, 1999, and which we support, as well as to the outcome of Senate Judiciary Committee negotiations on database protection legislation last summer, in which some key concerns of the scientific and educational communities were addressed.

Before discussing these two important developments, we wish to note that we were encouraged by the two changes that already have been made to this Committee's previous version of this legislation, H.R. 2652 (and subsequently Title V of H.R. 2281), in H.R. 354: (1) trying to eliminate the potential for indefinitely prolonging the 15-year duration of protection in section 1408 (c), and (2) expanding the scope of the exemption for certain nonprofit educational, scientific, or research uses in section 1403 (a). The first revision addresses one of the Constitutional defects that was pointed out by various critics of last year's version of this bill; the second one responds to some of the concerns we had conveyed last year regarding the potential negative impacts of the legislation on public interest uses, generally, and on our nation's research activities, specifically. Despite these positive developments, we remain troubled by the scope and substance of a number of the provisions in H.R. 354, and by its approach to addressing the problem of database piracy overall, which seeks to maintain legal equivalency to the E.U. Database Directive.

As you know, in late July of last year, Senator Hatch invited representatives of the various stakeholder groups to participate in a series of closed negotiations, which lasted from the beginning of August until early October. This process resulted in a series of legislative drafts, culminating in a version dated October 5, 1998, which was introduced into the Congressional Record by Senator Hatch on January 19, 1999 as well (referred to as the "Hatch Database Draft" below). Because of the importance of this legislation to the interests of the research community, the Academies took the unusual step of participating directly in these negotiations. We submitted a series of analytical commentaries and specific alternative proposals (see Appendixes A1, A2, and A3 for an abridged selection of those submissions), almost all of which remain relevant to H.R. 354.

The other concerned parties to the negotiations, including a broad cross-section of nonprofit and industry organizations and companies, also submitted constructive proposals in good faith and these were given due consideration by the Senate Judici-

ary Committee. Perhaps most significant, the Administration provided a consensus critique of H.R. 2652 in an August 5, 1998 letter from the Department of Commerce General Counsel, Andrew Pincus, to Senator Hatch. In addition, the Department of Justice submitted a legal memorandum to Senator Hatch on July 28, 1998 regarding the Constitutional problems of the legislation, and the Chairman of the Federal Trade Commission, Robert Pitofsky, wrote to the Honorable Tom Bliley, Chairman of the House Committee on Commerce on September 28, 1998 concerning its the potential anticompetitive effects.

Although the direct negotiations of the stakeholder parties produced no major breakthroughs or compromise solutions, the final phases of the negotiations, as mediated by the Senate staff, resulted in the October 5, 1998 draft, which produced some far-reaching modifications to Title V of H.R. 2281. Most of these changes substantially implemented important aspects of the Academies' own position, the highlights of which may be summarized as follows:

- The quasi exclusive property right approach of H.R. 2281 was ultimately abandoned in favor of a more reasonable "misappropriation" (unfair competition) approach (see Appendix B, a letter from Professor Harvey Perlman to Senator Hatch dated September 4, 1998, for a critique of why Title V of H.R. 2281—and the current H.R. 354—is not an unfair competition law). This was accomplished by conditioning liability on acts that "cause *substantial harm* to the actual or neighboring market" of database proprietors (section 1302 of the Hatch Database Draft, emphasis added) and by inviting courts, in the legislative history, to determine "substantial harm" in light of "whether the harm is such as to significantly diminish the incentive to invest in gathering, organizing, or maintaining the database" (see the proposed Conference Report Language on section 1302 in the Hatch Database Draft).
- A full carve-out that would immunize customary scientific and educational activities was adopted in place of the weak exception provided under section 1303(d) of H.R. 2281, and the limited and unacceptable "fair use" approach that the Administration had recommended during the Senate negotiations. We considered a "fair use" approach, modeled on copyright law, as inadequate because other basic copyright immunities and exceptions, including the idea-expression dichotomy, are not carried over into the database protection environment. On the contrary, because the proposed database law would protect collections of facts and data that are ineligible for protection under our copyright law, most scientific activities that were previously permissible would become infringing acts under such a law. The burden would then be on scientists to show that a vague fair-use exception should excuse some of these infringing acts from whatever test of harm was adopted. In contrast, we successfully argued that traditional scientific activities should remain unhampered by any new database protection law, as the Administration's consensus position in the August 5 *Pincus letter* also maintained. To this end, § 1304 of the final version of the Hatch Discussion Draft stated that "*nothing in this chapter shall prohibit or otherwise restrict the extraction or use of a database protected under this chapter for the following purposes:*

1) for illustration, explanation, or example, comment or criticism, internal verification, or scientific or statistical analysis of the portion used or extracted; and

2) in the case of nonprofit scientific, educational, or research activities by nonprofit organizations, for similar customary or transformative purposes" [emphasis added].

Only if a scientist were to cause substantial harm to the database maker by using unreasonable and non-customary amounts of the collection for a given purpose, or if the scientist in fact made a substitute for the original, or otherwise sought to avoid paying for the use of research tools devised as such, would liability kick in. Under this approach, the burden would be on publishers to show that scientists had crossed the line of permitted, traditional, or customary uses, which are immunized. Our operating principle that science should be left no worse off after enactment than it was before, would thus have been substantially implemented. This same line of reasoning extends to our preference for this language over that proposed in section 1403(a) of H.R. 354.

- Additional immunities and exceptions favoring certain instructional and library uses of databases also were defined (see section 1307 of the Hatch Database Draft), although we believe that greater flexibility would need to be given educational users in this context.

- The need for regulation of licensing terms and conditions was expressly recognized in a series of provisions requiring periodic studies of the misuse doctrine (see Sec. 4 and Proposed Conference Report Language, pages 36-37, in the Hatch Database Draft). It is our view, however, that these restraints on licensing should have been codified in the operative clauses of the Act itself.
- The legislative history also clarified the definition of databases in ways that tended to exclude ordinary literary works, and it denied protection "to any ideas, facts, procedure, process, system, method of operation, concept, principle, or discovery, as distinct from the collection that is the product of investment protected by this Act" (see page 31 in the Hatch Database Draft). Again, in our view, it would be much better to codify this definition expressly in the Act itself.

We considered these revisions to Title V of H.R. 2281, while not necessarily optimal, to be representative of the progress that could be made in achieving a more balanced database antipiracy legislation. Nevertheless, there were other important provisions of the legislation that still required substantial work to make H.R. 2281, and its successor bill, H.R. 354, even marginally acceptable, including, among other:

- the blanket prohibitions on traditionally legitimate commercial value-adding uses;
- the retroactive application of the legislation;
- the incomplete government data exemption, particularly for government databases disseminated by the private sector;
- the excessive length of the term of protection in light of the breadth and depth of the scope of protection;
- the absence of any reasonable limitations on the greatly increased market power granted by this legislation to sole-source data providers; and
- the lack of adequate definitions regarding important terms.

Although both the extent of progress in the Senate, as well as the unresolved issues, indicate that a great deal more work would need to be done on H.R. 354 to bring it into some reasonable balance among all the legitimate competing interests, we believe a better alternative, as noted above, was introduced into the Congressional Record by Senator Hatch. Without going into extensive detail at this time about the relative merits of the two approaches, we wish to emphasize that we consider the approach taken in "The Database Fair Competition and Research Promotion Act of 1999" to be preferable because it:

- Targets database piracy by using true unfair competition principles, without creating unprecedented new property rights in data and unwarranted control in downstream uses of data;
- Maintains a reasonable balance between the interests of database producers and users, including legitimate and economically important value-adding activities;
- Preserves essential public interest uses, including customary scientific, educational, and library activities;
- Adheres to all Constitutional principles; and
- Provides protection against monopolistic pricing by sole-source data vendors in situations where competition is not a de facto reasonable method of sustaining balance of economic interests.

We trust that you and your Committee will review this alternative carefully to make your own determinations. We believe it is especially worthy of note that this alternative is supported by an impressive array of not only research, educational, library, and consumer organizations and institutions, but by many commercial publishers and information service providers.

Later this spring, the National Research Council will publish two reports that will address in greater depth many of the fundamental issues regarding intellectual property rights in the networked environment, and reviewing the policy options for promoting access to and use of scientific and technical data for the public interest. Also toward the end of this year, AAAS will issue recommendations of an expert group it has convened on the connection between intellectual property and electronic publishing in science.

We hope that these studies will help promote a deeper understanding of the issues underlying the current debate, and we look forward to continuing to work with Congress in this important area. Thank you again for providing us with the opportunity to testify at this hearing.

BIOGRAPHICAL SUMMARY OF JOSHUA LEDERBERG

Joshua Lederberg, a research geneticist, is Sackler Foundation Scholar and President-emeritus of Rockefeller University in New York. Dr. Lederberg attended Columbia P&S Medical School, and he received his Ph.D. in microbiology at Yale. He served as professor of genetics at the University of Wisconsin, and then at Stanford School of Medicine, before coming to the Rockefeller University in 1978. His life-long research, for which he received the Nobel Prize in 1958 (at the age of 33), has been in genetic structure and function in microorganisms. He has been actively involved in artificial intelligence research (in computer science) and in the NASA experimental programs seeking life on Mars. He has also been a consultant on health-related matters for government and the international community, e.g., having had long service on WHO's Advisory Health Research Council. He has been a member of the National Academy of Sciences since 1957, was a charter member of the Institute of Medicine, and was elected Fellow of the American Association for the Advancement of Science in 1982. He has served as Chairman of the President's Cancer Panel, and of the Congress' Technology Assessment Advisory Council, as well as on numerous other consultative panels, including the regents of the National Library of Medicine. He received the U.S. National Medal of Science in 1989. From 1978 to 1990, Dr. Lederberg served as president of the Rockefeller University, where he continues his research activities in the genetics and evolution of bacteria and viruses.

Proposed Amendments to H.R. 2281: Synopsis, Corrections, and Text

Submitted by the

**National Academy of Sciences
National Academy of Engineering
Institute of Medicine**

**for consideration by the
Senate Committee on the Judiciary**

August 11, 1998

Synopsis of the Proposed Amendments to H.R. 2281

Section 1301 - DEFINITIONS

1301 (2) - Information. Inclusion of "works of authorship" in the definition of "information" is queried on constitutional grounds.

1301 (3) - "potential market" is limited to a "potential market for an existing product." However, we believe that any "potential market" test is unconstitutional, and propose a pure misappropriation test in Section 1302.

1301 (5) - We believe other definitions are desirable, including some for "extraction" and "use."

Section 1302 - PROHIBITION AGAINST MISAPPROPRIATION

We reject the "harm to market test" as unconstitutional and formulate liability in terms of "unfair, improper, or market-destructive" conduct that "seriously harms or impairs the opportunities for" investors "to recoup [their] investment and turn a reasonable profit." This formula replaces the language of a de facto exclusive property right with a true misappropriation standard that does not strike at fair followers.

Section 1303 - PERMITTED ACTS

1303 (a) - Individual items of information and other insubstantial parts. The amendment prohibits contractual overrides of the right to use insubstantial parts of a database for any purpose (as occurs under the E.C. Directive).

1303 (b) - Gathering or use of information obtained through other means. The proposed amendment states expressly that when independent creation of data is not economically or physically practicable database owners must license the contents to anyone on fair and reasonable terms.

1303 (c) and (d) combined - Nonprofit educational, scientific, or research uses.

1303 (c) (I) - The amendment clarifies that anyone may extract or use information to verify the accuracy of any protected collection.

1303 (c) (III) - Establishes an unrestricted right of statistical analysis and imposes on database providers a general duty not "to impede the extraction or use of information for nonprofit educational, scientific, or research purposes." No

liability attaches for any such use or extraction unless effected by unfair, improper, or market-destructive means that seriously impair the opportunities to recoup investment and turn a profit.

1303 (c) (iii) - Sets out legal criteria for determining the limits of the above-stated exemption (loosely drawn from the "fair use" provision of copyright law, but focused on improper harm to investment rather than markets); an exception to the exception for scientific use is made to recognize a duty to pay firms substantially engaged in the construction of databases as research tools.

1303 (c) - Alternative Proposal (simple model): This proposal exempts educational, scientific, or research uses and extractions of information from liability if "such use or extraction is not part of a consistent pattern engaged in for the purpose of direct competition in the relevant market."

1303 (c) (iv) - Under either approach, the above exemptions apply to all databases that have been made available to the public, without regard to whether or not the database has been "published" in the technical sense of the term.

Section 1303 (g) - TRANSFORMATIVE USES

These amendments seek to dispel the unconstitutional implications of creating reserved markets (on analogy to "derivative works" under copyright law) without sacrificing the database maker's incentives to compile and without creating a free-rider loophole. Specifically:

1303(g) (1) - Distant Markets: Allows competitors operating in distant markets to use even substantial parts of a protected database if they independently generate the remainder and all subsequent updates, and also pay reasonable royalties until the expiry of the term of protection (now 15 years).

1303 (g) (2) - Direct Competition: Allows competitors operating in direct competition (on the same market segment) to use a substantial part (but not all or virtually all of a protected collection) after a three-year lead-time period if they independently generate the remainder plus updates, and if they also pay reasonable royalties to the end of the term.

1303 (g) (3) - Non-Protected Sources: Reconfirms the rights of anyone to make a new database that incorporates less than a substantial part of another database.

1303 (g) (4) - Allows certain private uses of lawfully obtained information.

1303 (g) (5) - Preserves a general right to extract or use information for illustrative or explanatory purposes.

Section 1304 - EXCLUSIONS**(a) Government collections of information**

These amendments further refine the exclusion for government-funded data as follows:

1304 (a) (3) - reconfirms the right to replicate any government-funded data, wherever found (except as otherwise provided for state universities and stock exchanges).

1304 (a) (4) - limits payments to be charged for access to or use of government data to those established by federal laws and regulations.

1304 (a) (5) - requires value-adding private firms to make underlying government data available when not otherwise available elsewhere (and in the absence of a registration system).

1304 (a) (6) - ensures the public availability of data collected under statutory obligations.

Section 1304 (b) - COMPUTER PROGRAMS

1304 (b) (2) - clarifies that the database law cannot affect the legal status of computer programs under other laws.

Section 1305 - RELATIONSHIP TO OTHER LAWS

1305 (a) - Other rights not affected: This amendment expressly subjects the general principle respecting the independence of other laws to existing exceptions (b) and (c) and to new exceptions (d) and (e).

1305 (d) - Antitrust

(2) Establishes "tying" as a prima facie antitrust violation; and expressly legitimates a defense of "misuse" of the rights created in the database bills;

(3) expressly empowers non-profit educational and scientific organizations to bargain collectively concerning implementation of any aspect of the database law

1305 (e) - Licensing

(1) Requires that contracts implementing database rights should not violate the policies and provisions governing both rights and duties under this law and under other federal intellectual property laws.

Allows educators, scientists, and researchers unrestricted access (online or otherwise) to both publicly and privately generated data in return for equitable compensation; sets out the criteria for determining such compensation; and reconfirms that no other charges shall apply to data accessed for educational or research purposes.

[(2 A) ALTERNATIVE PROPOSAL: In lieu of the above solution, creates a "sword of Damocles" clause requiring both access and end-user contracts (online or otherwise) to be made on reasonable terms and conditions, with due regard for science, research, education, free speech and competition; sets out criteria for evaluating reasonable fees for such uses; and reconfirms that no other charges shall apply to data accessed for educational or research purposes.]

(2) Affirms that contracts varying these clauses are unenforceable.

(3) Affirms that technical devices, including encryption devices, cannot be used to defeat these clauses.

Section 1307 (a) (1) - CRIMINAL OFFENSES

The threshold for criminal liability is elevated from \$10,000 to \$50,000; also indicates that misdemeanors and felonies should be differentiated.

Section 1307 - LIMITATIONS ON ACTIONS

1308 (c) (1) - Additional Limitations [Term of Duration]: Three options are presented:

Option 1: The term of protection is left at 15 years only if our proposals on transformative uses [summarized above - Section 1303 (g)] and permitted acts [Section 1303] are accepted.

Option 2: Otherwise, Option 2 limits protection to a flat three-year head start (lead-time) period.

Option 3: This option would require registration for a full ten-year term, but allow protection of all unregistered databases for two years (NB: A registration system is not inconsistent with Option 1, and it would favor dissemination of scientific and research data).

1308 (c) (2) - Under any option, this clause ensures public access to all protected data at the end of the prescribed term, and it seeks to avoid the constitutional implications of perpetual protection for dynamic databases.

1308 (d) - Allows only prospective, not retroactive, protection.

Corrigenda of the
Text of Proposed Amendments
as Distributed on August 6, 1998

Corrigenda of the Text of Proposed Amendments as Distributed on August 6, 1998

Note: In the interest of providing a working draft of the proposed amendments as quickly as possible on August 6, some technical and substantive errors were made. The following Sections of the text distributed on August 6, 1998 have been revised and incorporated into the full text distributed on August 11, 1998, as set out below.

1. Section 1303 (c) (i) was erroneously described as Section 1303 (c i)
2. Sections 1304 (3), (4), (5), which further refine the exceptions for government-generated data, were improperly restricted in ways that are inconsistent with existing statutes and regulations. Consistent with the government's position paper of August 6, 1998, these sections have been redrafted and included in the full text below. The previous version is necessarily withdrawn from consideration.
3. Section 1305 (e) (2) [Option 2] omitted a necessary reference to freedom of speech. In any event, the government's position paper of August 6, 1998 would seem to mandate Option 1, as indicated in the Explanatory Memorandum.
4. Section 1307 (b) - It is further suggested that misdemeanors be distinguished from criminal penalties.

**Full Text of the Proposed
Amendments
(including Corrigenda)
as of August 11, 1998**

Full Text of the Proposed Amendments **(including Corrigenda, as of August 11, 1998)**

All references are to H.R. 2281, as adopted on August 4, 1998, Title V--"Collections of Information Antipiracy Act."

[Additions to the Bill are underlined; deletions are struck through.]

Sec. 1301 Definitions

As used in this chapter:

(1) **COLLECTION OF INFORMATION**- The term collection of information means information that has been collected and has been organized for the purpose of bringing discrete items of information together in one place or through one source so that users may access them.

(2) **INFORMATION**- The term 'information' means facts, data, works of authorship, or any other intangible material capable of being collected and organized in a systematic way.

[NB: We question the inclusion of "works of authorship" here.]

(3) **POTENTIAL MARKET**- The term 'potential market' means any market for an existing product or service that a person claiming protection under section 1202 has current and demonstrable plans to exploit or that is commonly exploited by persons offering similar products or services incorporating collections of information.

[NB: The significance of this change is much diminished under the general approach we have adopted, but we think it wise to preserve this proposed change in case our proposals fail to carry].

(4) **COMMERCE**- The term 'commerce' means all commerce which may be lawfully regulated by the Congress.

(5) **PRODUCT OR SERVICE**- A product or service incorporating a collection of information does not include a product or service incorporating a collection of information gathered, organized, or maintained to address, route, forward, transmit, or store digital online communications or provide or receive access to connections for digital online communications.

[NB: Other definitions are needed, including the terms "use" and "extraction"]

Sec. 1302. Prohibition against misappropriation

Any person who extracts, or uses in commerce, all or a substantial part, measured either quantitatively or qualitatively, of a collection of information gathered, organized, or maintained by another person through the investment of substantial monetary or other resources, so as by unfair, improper, or market-destructive means, to seriously harm or impair the opportunities for that other person to recoup his or her investment and turn a reasonable profit for ~~cause harm to the actual or potential market of that other person, or a successor in interest of that other person, for~~ a product or service that incorporates that collection of information and is offered or intended to be offered for sale or otherwise in commerce by that other person, or a successor in interest of that person, shall be liable to that person or successor in interest for the remedies set forth in section 1306.

Sec. 1303. Permitted acts

(a) INDIVIDUAL ITEMS OF INFORMATION AND OTHER INSUBSTANTIAL PARTS - Nothing ~~in this chapter shall~~ prevent the extraction or use of an individual item of information, or other insubstantial part of a collection of information that has been made available to the public, in itself, and any contractual provision contrary to the purpose of this provision shall be unenforceable as a matter of federal law. An individual item of information, including a work of authorship, shall not itself be considered a substantial part of a collection of information under section 1302. Nothing in this subsection shall permit the repeated or systematic extraction or use of individual items or insubstantial parts of a collection of information so as to circumvent the prohibition contained in section 1302.

(b) GATHERING OR USE OF INFORMATION OBTAINED THROUGH OTHER MEANS - Nothing in this chapter shall restrict any person from independently gathering information or using information obtained by means other than extracting it from a collection of information gathered, organized, or maintained by another person through the investment of substantial monetary or other resources. However, when it becomes objectively impracticable, physically or economically, to independently gather information made available to the public, and no similar collection of information is available from other sources, the person who gathered the collection protected under this chapter shall not refuse to license the use or extraction of the information it contains on reasonable terms and conditions for any purpose whatsoever.

1303 [c] and [d] combined - NONPROFIT EDUCATIONAL, SCIENTIFIC, OR RESEARCH USES

1303 (c) (i) USE OF INFORMATION FOR VERIFICATION- Nothing in this chapter shall restrict any person from extracting information, or from using a collection of information within any entity or organization, for the sole purpose of verifying the accuracy of information independently gathered, organized, or maintained by that any person or of information otherwise lawfully obtained under this Chapter.

(ii) No person shall invoke the protection provided by this chapter to prohibit the summarization or analysis of any collection of information by statistical or other scientific methods or to impede the extraction or use of information for nonprofit educational, scientific or research purposes.

Under no circumstances shall the information so used be extracted from the original collection and made available to others in a manner that harms directly the actual or potential market for the collection of information from which it is extracted or used.

No person who, for educational, scientific, or research purposes, extracts or uses information gathered or collected by another person or entity shall incur liability under this chapter so long as such use or extraction does not by unfair, improper, or market-destructive means, seriously harm or impair the opportunities for that other person to recoup his or her investment and turn a reasonable profit.

(iii) In determining the applicability of subsection (ii), courts may take into account:

- the purpose and character of the use or extraction;
- the nature of the protected collection of information, including the fact that it may have constituted a commercial research tool developed or sold by a firm substantially engaged in the production of such tools;
- the amount and substantiality of the information used or extracted in relation to the product or service incorporating the collection of information;
- and the effect of the use or extraction on the gatherers' opportunities to recoup their investments and turn a profit in the market for that same product or service.

[Possible alternative to (ii) and (iii) above: No person who for educational, scientific, or research purposes extracts or uses information collected or generated by another person or entity shall incur liability under this Chapter so long as such use or extraction is not part of a consistent pattern engaged in for the purpose of direct competition in the relevant market.]

(d) NONPROFIT EDUCATIONAL, SCIENTIFIC, OR RESEARCH USES Nothing in this chapter shall restrict any person from extracting or using information for nonprofit educational, scientific, or research purposes in a manner that does not harm directly the actual or potential market for the product or service referred to in section 1302.

(iv) The fact that a collection of information is unpublished shall not of itself render impermissible the use or extraction of information otherwise allowed within the criteria set out in this provision, so long as that information has otherwise been made available to the public.

(e) NEWS REPORTING- Nothing in this chapter shall restrict any person from extracting or using information for the sole purpose of news reporting, including news gathering, dissemination, and comment, unless the information so extracted or used is time sensitive, has been gathered by a news reporting entity for distribution to a particular market, has not yet been distributed to that market, and the extraction or use is part of a consistent pattern engaged in for the purpose of direct competition in that market.

(f) TRANSFER OF COPY- Nothing in this chapter shall restrict the owner of a particular lawfully made copy of all or part of a collection of information from selling or otherwise disposing of the possession of that copy.

(g) Transformative or Competitive Uses

(1) Distant markets - Nothing in this chapter shall prevent any person from extracting or using a substantial part of the information in a collection protected under Section 1302 to form a new collection of information that is sold or distributed in different market segments from that in which the initial gatherer of the collection normally operates; provided that the person or entity making the aforesaid use or extraction shall have independently gathered the remainder of the non-competing collection, and of all subsequent updates or improvements of its contents, and that said person shall also pay reasonable royalties to the person or entity who made the relevant investments for the gathering of the information initially used or extracted, and such royalties shall accrue from the date of such use or extraction until the expiry of the term of protection set out in Section 1308 below.

(2) Direct competition - Nothing in this chapter shall prevent any person from extracting or using a substantial part of the information in a collection protected under Section 1302 (but not all or virtually all of such information) to form a new collection of information that is sold or distributed in the same market segments in which the initial gatherer normally operates, provided that

- (i) such use or extraction occurs more than three years after the investment of resources that qualified the portion of the collection of information for protection under this chapter that is extracted or used;
- (ii) that the person making such extraction or use shall independently have gathered the remainder of the competing collection and all subsequent updates or improvements of its contents;
- (iii) and provided further that the person making such extraction or use shall also pay reasonable royalties to the person or entity that made the relevant investments for the

gathering of the information initially used or extracted, from the date of such action to the expiry of the term of protection set out in Section 1308 below.

- (3) Nonprotected Sources - Nothing in this chapter shall restrict any person from extracting or using information from a collection of information protected under Section 1302 to form a new collection of information of which substantial part, measured either qualitatively or quantitatively, was obtained from a source other than the protected collection of information.

[The following clauses may be held in reserve pending the outcome of discussions bearing on the afore-mentioned proposals:]

- (4) Nothing in this chapter shall restrict any person from condensing, abridging, or reconfiguring a collection of information protected under Section 1302, PROVIDED that the resulting collection of information is not distributed to the public.
- (5) Nothing in this chapter shall restrict any person from extracting or using information from a collection of information protected under Section 1302 and incorporating it in a work for illustrative or explanatory purposes.

Sec. 1304. Exclusions

(a) GOVERNMENT COLLECTIONS OF INFORMATION-

(1) **EXCLUSION-** Protection under this chapter shall not extend to collections of information gathered, organized, or maintained by or for a government entity, whether Federal, State, or local, including any employee or agent of such entity, or any person exclusively licensed by such entity, within the scope of the employment, agency, or license. Nothing in this subsection shall preclude protection under this chapter for information gathered, organized, or maintained by such an agent or licensee that is not within the scope of such agency or license, or by a Federal or State educational institution in the course of engaging in education or scholarship.

(2) **EXCEPTION-** The exclusion under paragraph (1) does not apply to any information required to be collected and disseminated--

(A) under the Securities Exchange Act of 1934 by a national securities exchange, a registered securities association, or a registered securities information processor, subject to section 1305(g) of this title; or

(B) under the Commodity Exchange Act by a contract market, subject to section 1305(g) of this title.

- (3) Nothing in this chapter shall prohibit any use of portions, however substantial, of collections of information when those portions are replicated without significant change or improvement from collections of information produced generated by federal, state, or local governments, or otherwise substantially originated with public funds, except as otherwise provided for educational institutions in Section 1304 (a) (1) and for the securities exchanges and contract markets covered by Section 1304 (a) (2).
- (4) Whenever a given collection of information is substantially funded by government and made available to the public, anyone seeking access to that information information for educational, scientific, or research purposes must not be charged any fees inconsistent with those authorized in the Paperwork Reduction Act of 1995, amending 44 U.S.C. 35, and other applicable Federal laws and regulations.
- (5) Private firms that add value to government-funded collections of information falling within Section 1304 (a) (1), (2) and that benefit from this Act when making the resulting value-added collections available to the public, must allow anyone to access the original collections funded by government government for educational, scientific, or research purposes if such collections are not otherwise available to the public for these purposes use and extraction; and in that event, such users must not be charged any fees, including access fees, that exceed those authorized by the Paperwork Reduction Act of 1995, and other applicable Federal laws and regulations.
- (6) The exclusion under Section 1304 (a) (1) does not apply to any information required to be collected and disseminated by a non-government entity pursuant to a statute, regulation, or court order. Notwithstanding any provision of this chapter, such information must be made available to the public in accordance with the statute, regulation or order pursuant to which the information was collected.

(b) COMPUTER PROGRAMS-

(1) **PROTECTION NOT EXTENDED-** Subject to paragraph (2), protection under this chapter shall not extend to computer programs, including, but not limited to, any computer program used in the manufacture, production, operation, or maintenance of a collection of information, or any element of a computer program necessary to its operation.

(2) **INCORPORATED COLLECTIONS OF INFORMATION-** A collection of information that is otherwise subject to protection under this chapter is not disqualified from such protection solely because it is incorporated into a computer program. The incorporation of a collection of information that is subject to protection under this chapter into a computer program shall not otherwise expand or diminish its legal status as a computer program under other laws or regulations.

Sec. 1305. Relationship to other laws

(a) ~~OTHER RIGHTS NOT AFFECTED-~~ Subject to subsections (b), (c) and (d), and (e), nothing in this chapter shall affect rights, limitations, or remedies concerning copyright, or any other rights or obligations relating to information, including laws with respect to patent, trademark, design rights, antitrust, trade secrets, privacy, access to public documents, and the law of contract.

(b) ~~PREEMPTION OF STATE LAW-~~ On or after the effective date of this chapter, all rights that are equivalent to the rights specified in section 1302 with respect to the subject matter of this chapter shall be governed exclusively by Federal law, and no person is entitled to any equivalent right in such subject matter under the common law or statutes of any State. State laws with respect to trademark, design rights, antitrust, trade secrets, privacy, access to public documents, and the law of contract shall not be deemed to provide equivalent rights for purposes of this subsection.

(c) ~~RELATIONSHIP TO COPYRIGHT-~~ Protection under this chapter is independent of, and does not affect or enlarge the scope, duration, ownership, or subsistence of, any copyright protection or limitation, including, but not limited to, fair use, in any work of authorship that is contained in or consists in whole or part of a collection of information. This chapter does not provide any greater protection to a work of authorship contained in a collection of information, other than a work that is itself a collection of information, than is available to that work under any other chapter of this title.

(d) ~~(d) ANITITRUST-~~

(1) Nothing in this chapter shall limit in any way the constraints on the manner in which products and services may be provided to the public that are imposed by Federal and State antitrust laws, including those regarding single suppliers of products and services.

(2) The relief provided under sections 1306 and 1307 shall not be available to a person who conditions the license or sale of a collection of information protected under this chapter on the acquisition or license of any other product or service or on the performance of any action not directly related to the license or sale, or who otherwise misuses a collection of information. [DFC]

(3) It shall not be a violation of the antitrust laws or of any related trade regulation laws for nonprofit educational, scientific, or research organizations to bargain collectively with any persons or entities that benefit from the protections of this chapter concerning any rights, duties, liabilities, exceptions, or immunities arising from any provisions of this chapter.

(e) ~~LICENSING-~~

(1) Nothing in this chapter shall restrict the rights of parties freely to enter into licenses or any other contracts with respect to the use of collections of information, so long as those licenses or contracts are not inconsistent with the policies and provisions implemented in this chapter, or in other federal intellectual property laws, including Section 1303 (a), forbidding contracts that impede extraction or use of insubstantial parts of protected collections, and Section 1305 (e) (2), concerning licenses or contracts governing access to protected collections of information for educational, scientific, or research purposes.

[PREFERRED OPTION 1:]

(2) Whenever a given collection of information not substantially funded by government within the purview of Section 1304 above is made available to the public by electronic or other means, those who benefit from the protection of this Act must allow anyone to access that information for educational, scientific, or research purposes in exchange for fair and equitable compensation that takes into account

- (i) the private vendor's cost of generating and delivering the relevant information;
- (ii) the user's ability reasonably and fairly to contribute to offsetting those costs while fulfilling its educational, scientific, or research missions; and
- (iii) the extent to which the activities in question are of a commercial or not-for-profit character.

Use or extraction of the information once accessed under this provision for nonprofit educational, scientific, or research purposes is not subject to additional charges, as provided in Sections 1303 (c) and (d) above.

[ALTERNATIVE OPTION 2, TO CONSIDER ONLY IF THE BILL IS OTHERWISE SATISFACTORILY AMENDED]

(2) All licenses or other contractual agreements governing access to collections of information within this Act, regardless of the medium in which they are conveyed, or that impose restrictions on end users of such collections, shall contain fair and reasonable terms and conditions, with due regard for the public interest in education, science, research, freedom of speech, and the preservation of a competitive marketplace. In determining the reasonableness of any fees charged to access information for such purposes, the courts may consider:

- (i) the extent to which the information is not substantially funded by government within the purview of Section 1304 (a) and is made available to the public;
- (ii) the private vendor's costs of generating and delivering the relevant information;
- (iii) the user's ability reasonably and fairly to contribute to offsetting those costs while fulfilling its educational, scientific, or research missions; and

(iv) the extent to which the activities in question are of a commercial or not-for-profit character.

Use or extraction of the information once accessed under this provision for nonprofit educational, scientific, or research purposes is not subject to additional charges, as provided in Sections 1303 (c) and (d) above.

(3) With respect to collections of information that have been made available to the public, Any license or contractual agreement that attempts to contradict or limit the conditions governing access to and use of such collections for educational, scientific, or research purposes, as elsewhere set out in this chapter, shall be deemed impermissible and unenforceable on grounds of public policy.

(4) Those who benefit from the protection of this chapter may not use technical measures or devices for the management of information or the rights therein, including telecommunications networks, computer programs, or encryption devices, so as unfairly or improperly to defeat or impede the educational, scientific, or research activities authorized by this chapter.

(f) COMMUNICATIONS ACT OF 1934- Nothing in this chapter shall affect the operation of the provisions of the Communications Act of 1934 (47 U.S.C. 151 et seq.), or shall restrict any person from extracting or using subscriber list information, as such term is defined in section 222(f)(3) of the Communications Act of 1934 (47 U.S.C. 222(f)(3)), for the purpose of publishing telephone directories in any format.

(g) SECURITIES AND COMMODITIES MARKET INFORMATION

[NB: the several new subsections under subsection (g) have not been added to this version due to time constraints and because we have no suggested revision to them.]

Sec. 1306. Civil remedies

(a) CIVIL ACTIONS- Any person who is injured by a violation of section 1302 may bring a civil action for such a violation in an appropriate United States district court without regard to the amount in controversy, except that any action against a State governmental entity may be brought in any court that has jurisdiction over claims against such entity.

(b) TEMPORARY AND PERMANENT INJUNCTIONS- Any court having jurisdiction of a civil action under this section shall have the power to grant temporary and permanent injunctions, according to the principles of equity and upon such terms as the court may deem reasonable, to prevent a violation of section 1302. Any such injunction may be served anywhere in the United States on the person enjoined, and may be enforced by

proceedings in contempt or otherwise by any United States district court having jurisdiction over that person.

(c) **IMPOUNDMENT**- At any time while an action under this section is pending, the court may order the impounding, on such terms as it deems reasonable, of all copies of contents of a collection of information extracted or used in violation of section 1302, and of all masters, tapes, disks, diskettes, or other articles by means of which such copies may be reproduced. The court may, as part of a final judgment or decree finding a violation of section 1302, order the remedial modification or destruction of all copies of contents of a collection of information extracted or used in violation of section 1302, and of all masters, tapes, disks, diskettes, or other articles by means of which such copies may be reproduced.

(d) **MONETARY RELIEF**- When a violation of section 1302 has been established in any civil action arising under this section, the plaintiff shall be entitled to recover any damages sustained by the plaintiff and defendant's profits not taken into account in computing the damages sustained by the plaintiff. The court shall assess such profits or damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's gross revenue only and the defendant shall be required to prove all elements of cost or deduction claims. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. The court in its discretion may award reasonable costs and attorney's fees to the prevailing party and shall award such costs and fees where it determines that an action was brought under this chapter in bad faith against a nonprofit educational, scientific, or research institution, library, or archives, or an employee or agent of such an entity, acting within the scope of his or her employment.

(e) **REDUCTION OR REMISSION OF MONETARY RELIEF FOR NONPROFIT EDUCATIONAL, SCIENTIFIC, OR RESEARCH INSTITUTIONS**- The court shall reduce or remit entirely monetary relief under subsection (d) in any case in which a defendant believed and had reasonable grounds for believing that his or her conduct was permissible under this chapter, if the defendant was an employee or agent of a nonprofit educational, scientific, or research institution, library, or archives acting within the scope of his or her employment.

(f) **ACTIONS AGAINST UNITED STATES GOVERNMENT**- Subsections (b) and (c) shall not apply to any action against the United States Government.

(g) **RELIEF AGAINST STATE ENTITIES**- The relief provided under this section shall be available against a State governmental entity to the extent permitted by applicable law.

Sec. 1307. Criminal offenses and penalties

(a) VIOLATION-

(1) IN GENERAL- Any person who violates section 1302 willfully, and--

(A) does so for direct or indirect commercial advantage or financial gain; or
 (B) causes loss or damage aggregating \$10,000- \$50,000 or more in any 1-year period to the person who gathered, organized, or maintained the information concerned, shall be punished as provided in subsection (b).

(2) INAPPLICABILITY- This section shall not apply to an employee or agent of a nonprofit educational, scientific, or research institution, library, or archives acting within the scope of his or her employment.

(b) PENALTIES- An offense under subsection (a) shall be punishable by a fine of not more than \$250,000 or imprisonment for not more than 5 years, or both. A second or subsequent offense under subsection (a) shall be punishable by a fine of not more than \$500,000 or imprisonment for not more than 10 years, or both.

[NB: Misdemeanors and felonies should be differentiated].

Sec. 1308. Limitations on actions

(a) CRIMINAL PROCEEDINGS- No criminal proceeding shall be maintained under this chapter unless it is commenced within three years after the cause of action arises.

(b) CIVIL ACTIONS- No civil action shall be maintained under this chapter unless it is commenced within three years after the cause of action arises or claim accrues.

(c) ADDITIONAL LIMITATION - [Term of Duration]

[OPTION 1: If the treatment of transformative uses conforms to the proposals set out earlier, then the following provision may stand:

(c) (1) No criminal or civil action shall be maintained under this chapter for the extraction or use of all or a substantial part of a collection of information that occurs more than 15 years after the investment of resources that qualified the portion of the collection of information for protection under this chapter that is extracted or used.

[OPTION 2: If the treatment of the transformative uses does not conform to the proposals set out above, then the term of duration in Section 1308 (c) should not exceed three years.

[OPTION 3: Impose a registration requirement, with two years of protection if not registered and ten years of protection if registered. Registration also may affect remedies. (Modelled after the Semiconductor Chip Protection Act of 1984)]

[Under either option 1, 2 or 3, the following additional safeguards are required:]

1308 (c) (2) - When a substantial investment of new resources in updating or improving an existing collection of information that has already qualified for protection under this chapter should requalify parts of this same collection for another term of protection as provided above, then no person who extracts or uses all or a substantial part of the pre-existing information as previously configured shall incur liability under this chapter. Any person who obtains a renewed term of protection for updated or improved portions of an existing collection covered by this chapter as specified above shall make the pre-existing version available to the public on request, and for the mere costs of delivery, from the time when new acts of investment otherwise qualified the relevant part or parts of an existing collection for an additional period of protection. In no case shall the renewal of protection for any part or parts of an existing collection of information owing to the investment of new resources in upgrades or improvements, prevent any use or extraction of the pre-existing configuration at the expiration of the term prescribed above, and no liability under this Chapter shall thereafter attach to such acts of use or extraction.

1308 (d) Limitation on Retroactive Application

No criminal or civil action shall be maintained under this chapter for the extraction or use of all or a substantial part of a collection of information for which the investment of resources which qualified the collection of information for protection under this chapter occurred prior to the effective date of this Act.

SEC. 4. CONFORMING AMENDMENT.

The table of chapters for title 17, United States Code, is amended by adding at the end the following:

1301.

SEC. 5. CONFORMING AMENDMENTS TO TITLE 28, UNITED STATES CODE.

(a) DISTRICT COURT JURISDICTION- Section 1338 of title 28, United States Code, is amended--

(1) in the section heading by inserting 'misappropriations of collections of information,' after 'trade-marks'; and

(2) by adding at the end the following:

(d) The district courts shall have original jurisdiction of any civil action arising under chapter 12 of title 17, relating to misappropriation of collections of information. Such jurisdiction shall be exclusive of the courts of the States, except that any action against a State governmental entity may be brought in any court that has jurisdiction over claims against such entity.

(b) CONFORMING AMENDMENT- The item relating to section 1338 in the table of sections for chapter 85 of title 28, United States Code, is amended by inserting misappropriations of collections of information,' after 'trade-marks,'.

(c) COURT OF FEDERAL CLAIMS JURISDICTION- Section 1498(e) of title 28, United States Code, is amended by inserting 'and to protections afforded collections of information under chapter 12 of title 17' after 'chapter 9 of title 17'.

SEC. 6. EFFECTIVE DATE.

(a) IN GENERAL- This Act and the amendments made by this Act shall take effect on the date of the enactment of this Act, and shall apply to acts committed on or after that date.

(b) PRIOR ACTS NOT AFFECTED- No person shall be liable under chapter 12 of title 17, United States Code, as added by section 3 of this Act, for the use of information lawfully extracted from a collection of information prior to the effective date of this Act, by that person or by that person's predecessor in interest.

Proposed Amendments to H.R. 2281: Explanatory Memorandum (Part 1)

Submitted by the

**National Academy of Sciences
National Academy of Engineering
Institute of Medicine**

**for consideration by the
Senate Committee on the Judiciary**

August 13, 1998

Explanatory Memorandum (Part 1)

1. Serious Constitutional Infirmities of H.R. 2281

As proposed by H.R. 2281, Sections 1301 and 1302 attach liability for acts that "cause harm to the actual or potential market" of the protected investors (Section 1302), and the term "potential market" is defined to include "any market" for which the investor "has current and demonstrable plans to exploit or that is commonly exploited" by similarly situated producers" (Section 1302 (3)). The definition of "information" in Section 1301 (2) also brings "works of authorship" within the "harm to actual or potential market tests."

We believe these clauses conflict with both the First Amendment and the Copyright Clause of the Constitution. As the Department of Justice's Office of the Legal Counsel recently affirmed, to the extent that the proposed legislation "...would prohibit extractions or uses of substantial portions of factual compilations by direct competitors, it is much more likely to be held constitutional than if it would prohibit extractions or uses by potential consumers for noncommercial purposes. By contrast, if the provision were construed to provide protection against uses by potential consumers, and not simply direct competitors, it would appear to be of almost limitless scope and therefore to raise constitutional concerns that would appear insurmountable" (Memorandum for William P. Marshall, Associate White House Counsel, from William Michael Treanor, Deputy Assistant Attorney General, Office of Legal Counsel, U.S. Department of Justice, July 28, 1998, p. 8).

For some forty years, the late Professor Melville Nimmer, a leading authority in both copyright protection and First Amendment law, taught that copyright protection would violate First Amendment guarantees of free speech, were it not for the judicial exclusion of ideas and facts from the reach of the exclusive property rights granted to authors and artists. In 1976, Congress codified that exclusion in §102 (b) of the General Revision of Copyright Law, and in 1991, the Supreme Court, in *Feist Publications, Inc. v. Rural Telephone Service, Co.*, reconfirmed the constitutional prohibition against an exclusive property right in either facts or ideas.

Proponents of H.R. 2281 openly concede that the "harm to actual or potential markets" test was drawn from §107 (4) of the 1976 Copyright Law, which codified the fair use provisions. This is a constitutionally fatal admission because the very purpose of §107 (4) is to confirm that protection of the author's market interests in both primary and secondary markets is the true goal of the copyright law's exclusive rights, exactly as Judge Frank declared in his famous opinion in *Arnstein v. Porter* (2d cir. 1943).

When transplanted to the database context, however, the protection of mere investment in databases that do not rise to the level of creative works of authorship against "harm to actual or potential markets" indirectly creates an exclusive property right in noncopyrightable collections of data, that governs both primary and secondary markets. Once collected, no one can make further use of the facts and data contained in the collection without the compiler's permission, even though Section 102 (b) of the Copyright Law states that facts and ideas are not fit subjects of an exclusive property right. True, H.R. 2281 does allow "independent creation" of databases in Section 1303 (b), and Section 1303 (d) exempts nonprofit educational, scientific, and research uses from liability for causing harm to "potential" markets. But such defenses in the proposed database regime are no more curative of these constitutional flaws than they would be in the copyright regime, for the reason that no one can constitutionally oblige all persons not to use facts or ideas that have been made available to the public. Facts and ideas that the copyright law must leave to unrestricted public use cannot constitutionally be withdrawn from public use under the First Amendment by a database law that protects against extraction and use on both primary and derivative markets.

In this connection, one should recall that the copyright law, unlike the patent law, does not protect against use as such of even the protected expression, as the Supreme Court established in *Baker v. Selden* (1879, reaffirmed in *Feist*). The protection of non-copyrightable data and facts against use on both primary and secondary markets thus impermissibly disrupts the balance established in the federal copyright and patent laws, which implement the constitutional Enabling Clause. Notwithstanding the public's right to use facts and ideas under the First Amendment and notwithstanding the constraints limiting Congressional action under the constitutional Enabling Clause, Sections 1302 and 1303 of H.R. 2281 create copyright-like protection for use of noncopyrightable matter; create a de facto derivative work right in noncopyrightable compilations; and prohibit transformative uses – however pro-competitive in nature – that harm this reserved or derivative market on the potential harm test.

No invocation of unfair competition law can disguise the fact that a "harm to actual or potential markets" test that does not focus on unfair or improper conduct expresses the language of exclusive property rights, which is exactly the function that §107 performs in the Copyright Law. In this connection, we have pointed out that scientific and research data frequently are physically or economically impracticable to regenerate from scratch, which only enhances the potential restraints on free speech under H.R. 2281 as it stands, by risking the withdrawal of facts and data as such from the public domain. From the policy perspective, the federal appellate courts have consistently declared that avoiding the costs of regenerating known facts and ideas constitutes a basic economic premise underlying the constraints on intellectual property protection deriving from both the First Amendment and the Enabling Clause.

The broad definitions of both "collection of information" (§1301 (1)) and "information" (§1301 (2)) aggravate these constitutional infirmities by drawing "works of authorship" into the realm of a competing and overlapping intellectual property right, and

also by casting legal doubts upon the future ability of third parties to make untrammelled use of public domain matter. Anytime someone would use data, including historical data, that are made available to the public contained in a "collection of information" protected by the proposed law, that user would be exposed to claims that he or she will have harmed the database originator's actual or potential markets if that producer had also used the same or similar data. This broad risk of liability cannot fail to have a chilling effect on the use of known facts and noncopyrightable databases in both the commercial and noncommercial spheres; and it is of little consolation to researchers and educators that they must fear only harm they might cause to actual markets, rather than to potential markets, as well.

Moreover, the database originator has no obligation to license value-adding or transformative uses, and if the originator is a sole-source provider (as frequently occurs, especially in specialized scientific and technical niche markets), there is no incentive to bargain. As a practical matter, this means that once data are collected and used for one purpose, such as to prepare a compilation of poisons and antidotes, there will be a strong disincentive to use the same data for other purposes lest those uses violate the "harm to other markets" principle.

By the same token, database recompilers or value adders would incur the risk of lawsuits for infringement every time their new database resembles some pre-existing database, whether those data were used or not. Even the exception that permits anyone to make use of "insubstantial parts" of a collection of information is vitiated by the language inflicting liability for harm to the investor's "actual or potential market" (only the "actual market" in the case of nonprofit educational, scientific, or research uses under Section 1303 (d)). Because the user cannot know such matters in advance, the "potential harm" test emasculates the "insubstantial parts" exception in practice.

In contrast, a true unfair competition approach would attach liability only when the third party harmed the database maker's actual or potential market by improper, unfair, or dishonest means. Such an approach would not inhibit competitors who "harm" the market by honest and innovative means, and it would not impede true transformative uses that promote competition and the public interest in science and education.

The "actual or potential markets" test is thus so broad that it would hinder fair competition simply because every successful competitor harms a prior entrant's market by definition and because would-be competitors would never know in advance when the use or extraction of protected data may turn out to cause harm to some unknown potential market. In this and other respects, the "harm to markets" test actually cloaks a reserved market formula, in the manner of the exclusive rights to reproduce and to prepare derivative works granted by §106 (1), (2) of the 1976 Copyright Law. Use of this formula in the database context invites other industries to apply for similar protection against harm to their actual or potential markets; and the cumulative anti-competitive effects of recognizing such special-interest protectionist pleas could seriously undermine the ability of the United States to compete in an integrated global marketplace.

A. Curing the Constitutional Defects

The logical way to remove the constitutional defects identified above is to replace the "harm to actual or potential markets" test with a true misappropriation test. Such a test should forbid unfair, improper, or market-destructive conduct that deters future investment without creating a de facto exclusive property right in data and without unduly restricting public access – and especially educational, scientific, and research access – to facts and data that fall under the protective sway of the First Amendment. The new test also must avoid creating a de facto exclusive right in secondary, or derivative, markets by unduly inhibiting pro-competitive transformative uses that are carried out by honest or proper means. These goals, identified as being of crucial constitutional impact for both the Administration as a whole (see the letter from Andrew J. Pincus, General Counsel to the Department of Commerce, to Orrin G. Hatch, Chairman of the Senate Committee on the Judiciary, August 4, 1998, p. 3 (final bullet)), and the Department of Justice are achieved by our proposed amendments to H.R. 2281, as analyzed below.

2. Section 1302 – Prohibition Against Misappropriation

Because the "harm to markets" test is both unworkable and unconstitutional, the proposed amendment to Section 1302 recasts liability in terms of "unfair, improper, or market-destructive" conduct that "seriously harms or impairs the opportunities . . . to recoup . . . investment and turn a reasonable profit." This formula accurately reflects the misappropriation doctrine as it has evolved from *I.N.S. v. A.P.* (U.S. 1918) to Judge Winter's opinion in *National Basketball Association v. Motorola, Inc.* (2d cir. 1997). This formula, however, does not limit protection merely to time-sensitive data, as these cases might do, lest the compiler's incentive be too narrowly circumscribed.

According to Professor Harvey Perlman, former Dean of the University of Nebraska Law School and Reporter for the American Law Institute's *RESTATEMENT (THIRD) OF UNFAIR COMPETITION* (1993), the proposed revised standard does not unfairly limit access to information or unnecessarily raise issues of constitutional constraints on intellectual property laws. At the same time, it would become logical to delete works of authorship from the definition of "information" in 1307 (2), as we have done, and also to delete any further reference to "potential market" in Section 1301 (3). Until this change of formula in Section 1302 is agreed upon, however, we have retained some language limiting the definition of "potential markets" in Section 1301 (3) to "any market for an existing product or service."

3. Freeing Transformative or Competitive Uses in Section 1303 (g)

To avoid creating, directly or indirectly, an impermissible "reserved market" effect, in the manner of an exclusive right to prepare databases that are derived from an

existing database, the proposed regime could simply confer a very short term of protection – say, two or three years. If, instead, a longer term is preferred, it must expressly forbid the making of value-adding compilations by unfair, improper, or market-destructive means, while expressly authorizing fair followers to invest in value-adding compilations that increase knowledge, improve existing collections of data, and lower prices in a more competitive environment. While legal criteria such as “unfair” and “improper” are necessarily open ended, they are terms of art drawn from centuries of domestic and foreign unfair competition law, to which courts have given meaning case by case. One could even protect the database maker’s opportunities to exploit potential markets from unfair or improper conduct that impairs the incentive to invest.

Accordingly, our proposed amendments to §1303 (g) distinguish value-adding collections that compete in distant markets from those devised to compete in the same market segment as a protected database. With respect to distant markets, competitors should be allowed to extract and use even a substantial part of a protected database if they independently generate the remainder of the non-competing database and all subsequent updates, and if they also pay reasonable royalties from the date of extraction or use to the end of the specified term (currently fifteen years in the proposed legislation, which, it should be noted, we consider excessively long and not adequately justified). Under this approach, nothing prevents the originators from exploiting distant markets as quickly as possible, and presumably, with all the head start advantages that first comers seem inherently to possess in the database market. Moreover, second comers operating in distant markets cannot appropriate the originator’s costs of inputs because they must pay reasonable royalties, based on such costs, while defraying their own costs of independently generating the remainder of the database (as re-configured to meet the needs of a distant market). Needless to say, unless the second comer also defrays the costs of updates, the non-competing database will soon become obsolete. Hence, there is no free-rider effect. At the same time, the first comer cannot invoke a misappropriation law to slow the pace of innovation on distant markets.

With respect to value-adding users who seek directly to compete on the same market segment as that of a protected database originator, it does seem necessary to defer the right to use a substantial part of such a database for a fixed period of lead time in which originators may seek to recoup costs and establish their trademarks. A three-year period of immunity seems more than adequate for this purpose, given the rapidity with which any given collection is likely to become obsolete, and it is worth noting that Japanese law has recently recognized a three-year head start with respect to the misappropriation of product designs.

Under our proposed amendments to Section 1303 (g) (2), moreover, a direct competitor would never be free to use all or virtually all of any protected database; that competitor would always have to compile both the remainder of the value-adding database and all updates or improvements; and he or she would always have to pay reasonable royalties for use of the underlying data to which value is added from the date of the use (i.e., after 3 years or more/until the end of the term (now fifteen years)). Once

again, there is no free-rider effect, while competition is promoted without undermining either the incentive to invest or the incentive to innovate.

4. Defending Education, Science, Research, and Other Public-Good Users and Related Constraints on Licensing

The success of our basic research and education system is predicated on the unfettered access and use of factual information; on a robust public domain for data; and on easy re-use, recompilation, and transformative applications of data. It is important to emphasize that databases created and used in the pursuit of basic research and education typically are done for incentives other than economic—for the creation of new knowledge, the thrill of discovery, and the enhancement of professional status. As currently drafted, however, the proposed legislation places an overwhelming emphasis on protecting original investments and on enhancing purportedly necessary additional economic incentives to create new databases. At the same time, it undervalues the potential adverse effects on scientific and technical progress, as well as the more general economic and social costs inherent in restricting and discouraging the downstream applications and transformative uses of noncopyrightable databases.

Although the full extent and precise nature of potential impacts on our nation's research and education community from the proposed legislation are difficult to predict, what is certain is that the pending changes to the law portend very negative results. For reasons explained in this memorandum, we believe that if this bill is enacted in its present form, that the costs of data and related research will increase significantly, the public domain for data will be diminished unconstitutionally, transformative applications of data will be curtailed, the open availability of publicly-funded data will be compromised, and there will be large-scale lost opportunity costs for both research and education as a result of the multiplied transactional burdens.

In seeking to avoid unintended harm to education, research, and the national system of innovation on which U.S. technological pre-eminence depends, one must avoid two pitfalls at the outset. First, simple-minded analogies to the fair use exception in copyright law are likely to obscure the appropriate analysis for the database context. Second, any fair use-like exceptions for research and educational uses of protected data must be coordinated with the costs of accessing such data, especially in an online environment, lest higher prices for one be allowed to offset lower prices for the other.

Fair use, rooted in harm to reserved markets, is an appropriately minimalist exception to the exclusive rights of copyright law precisely because facts and ideas are left open to unrestricted use and the author's market interest extends only to protected expression. Moreover, when fair use occurs, that privileged use comes free of charge. In contrast, the misappropriation doctrine of unfair competition law creates no valid market interest, as previously explained, beyond legal protection against improper or market-destructive forms of conduct. Here, precisely because data and information are the

lifeblood of science and education, there is a need to immunize most nonprofit uses of data for such purposes from any liability under a database law, except when those users engage in proscribed unfair, improper, or market-destroying conduct. Otherwise, educators, scientists, and researchers, who could previously use data and information contained in both copyrightable and noncopyrightable compilations without liability, would suddenly have to pay to use the same data when delivered under the new regime. However, we do recognize that some firms develop databases that are primarily research tools for science and education, and in such cases our proposal would require scientists and educators to pay the market price.

The second point in need of clarification is that any immunity for educational or scientific use of protected data must be carefully linked to, and coordinated with, express constraints on the licensing of the same data, especially in the online environment. Indeed, the prospects that providers will increasingly transmit databases to the public online is one of the arguments most relied upon to justify a new form of protection in the first place. Yet, a standard practice among online providers of information is to subdivide charges according to the type of use, with one fee typically charged for accessing the desired information in readable, unencrypted form, and another fee charged for downloading or other uses of the data once accessed. Unless the permissible range of both types of fees are coordinated by consistent, integrated legal rules, an exception for, say, science, cast in term of "use," may simply lead to demands for higher "access" charges than before.

Suppose, for example, that a private firm charges 2 utiles a frame for accessing its data and 4 utiles a frame for downloading it to an electronic receiver. If the receiver is a nonprofit scientific or educational institution, which is – we assume – exempt from the use charge under an immunities clause, that clause may not prevent the database provider from jacking up the cost of access to 6 utiles a frame, while nominally charging nothing for scientific or educational "use" as such. Science and education would nonetheless incur rising costs of data, limited only by the inability of the seller to sell its data beyond a certain price. Past experience with privatized Landsat data in the 1980s is not encouraging in this regard, however. In that case, the costs of access rose from \$400 per frame to over \$4,000 per frame, which resulted in well-documented adverse effects to earth science and remote sensing research (see, *Bits of Power: Issues in Global Access to Scientific Data*, National Academy Press, 1997, Chapter 4).

This does not mean that publishers who privately generate data of interest to science should waive all charges to science for accessing such data. On the contrary, researchers should be willing to pay a fair return on the publisher's investment in online delivery. What is needed are legal incentives (not just market incentives) for publishers to charge favorable or preferential access charges to nonprofit scientific and educational institutions and, where feasible, to differentiate their products for the profit and nonprofit sectors (see, *Bits of Power*, Chapter 4).

Another very important reason for regulating access to databases, especially in the online environment, is that scientists must avoid burdensome transaction costs when constructing complex databases from a multiplicity of sources. As recognized in the Administration's position, there is deep concern about a potential to "increase transaction costs . . . particularly in situations where larger collections integrate data sets originating from different parties or where different parties have added value to a collection through separate contributions," and also "where public investment has leveraged contributions from the private and nonprofit sectors" (*Pincus letter*, p. 2). The erection of artificial barriers to the use of multiple data sources would have highly negative consequences in research and education by discouraging data-intensive and interdisciplinary work that is so important to resolving many of our nation's most pressing problems.

Here, again, one must not allow measures to maintain the unrestricted flow of scientific data to obscure the private publishers' right to a fair return on their investments. Rather, the object is to establish default rules that will encourage publishers and scientists to achieve bargained-for solutions without allowing the former to interrupt the flow of upstream data and without allowing scientists a free ride, either.

It follows from these general considerations that the scientific and educational communities need:

- ◆ access to data on fair and reasonable terms and conditions;
- ◆ the ability to use the data thus accessed for any research or educational purposes; and
- ◆ freedom from contractual or technical interference with these privileges.

To achieve these goals, we have developed a number of proposed amendments bearing on research and educational uses in Section 1303 (Permitted Acts) and we have placed amendments regulating access to data for scientific and educational purposes in Section 1305 (Relationship to Other Laws), because H.R. 2281 is organized in this way. Nevertheless, we repeat that the two sets of proposals must be read conjunctively, not disjunctively, if the scientific and educational enterprise is to be left unharmed. Moreover, these provisions also must be read in conjunction with other key provisions, especially the exception for government-funded data in Section 1304 and the provisions forbidding perpetual protection in Section 1308 (c).

(a) Section 1303 - Permitted Acts

To immunize educational and scientific users from unintended harm, the following proposals have been advanced:

Section 1303 (a) - Individual Items of Information and Other Insubstantial Parts. Language has been added to prevent contractual overrides of the exception for insubstantial parts, viz:

- (a) **INDIVIDUAL ITEMS OF INFORMATION AND OTHER INSUBSTANTIAL PARTS**- ~~Nothing in this chapter shall prevent the extraction or use of an individual item of information, or other insubstantial part of a collection of information that has been made available to the public, in itself, and any contractual provision contrary to the purpose of this provision shall be unenforceable as a matter of federal law.~~

Section 1303 (b) - Gathering or use of information obtained for other means.

This section allows anyone independently to generate the same collection of data that a protected database may contain. However, many types of data cannot be independently gathered because their sources are unique or time-dependent and cannot be recreated after the fact. In science, one major category of such data is observations of physical phenomena, such as climate trends or various natural disasters. Still other databases may not be recreated from scratch for reasons of commercial unpredictability, as, for example, might occur if a second comer had to launch a satellite, but the market for the resulting data were too small to allow that second provider to recoup such huge front-end costs.

In all such cases, "the ability to gather or use information obtained through other means," as suggested by Section 1303(b), is not a potential option, and no substitutes may be available at any price. To avoid the monopolistic stumbling blocks inherent in this situation, the proposed amendment prohibits a refusal to license, and it requires that the resulting licenses contain fair and reasonable terms. The revised text is as follows:

- (b) **GATHERING OR USE OF INFORMATION OBTAINED THROUGH OTHER MEANS** - Nothing in this chapter shall restrict any person from independently gathering information or using information obtained by means other than extracting it from a collection of information gathered, organized, or maintained by another person through the investment of substantial monetary or other resources. However, when it becomes objectively impracticable, physically or economically, to independently gather information made available to the public, and no similar collection of information is available from other sources, the person who gathered the collection protected under this chapter shall not refuse to license the use or extraction of the information it contains on reasonable terms and conditions for any purpose whatsoever.

One should note that this soft, "sword of Damocles" approach does not penalize sole-source providers as such. It only kicks in when the data cannot practicably be regenerated and the sole-source provider overreaches. Even then, the uncertainty inherent in the default rule should normally stimulate the parties to bargain around it without resorting to the courts.

1303 (c) and (d) combined - NONPROFIT EDUCATIONAL, SCIENTIFIC, OR RESEARCH USES

The first step is to ensure that anyone can use any information to verify the accuracy of any collection, viz:

1303 (c) (i) USE OF INFORMATION FOR VERIFICATION- Nothing in this chapter shall restrict any person from extracting information, or from using a collection of information within any entity or organization, for the sole purpose of verifying the accuracy of information independently gathered, organized, or maintained by that any person or of information otherwise lawfully obtained under this Chapter.

The second provision expressly allows any statistical analysis, and it goes on to state the general rule allowing unrestricted use of information for research or education. This same provision goes on to establish the outer limit of this exemption, namely, the point at which a scientist or educator crosses the line by engaging in unfair, improper, or market-destructive conduct. The language is thus amended as follows:

~~Under no circumstances shall the information so used be extracted from the original collection and made available to others in a manner that harms directly the actual (or potential) market for the collection of information from which it is extracted or used.~~

(ii) No person who, for educational, scientific, or research purposes, extracts or uses information gathered or collected by another person or entity shall incur liability under this chapter so long as such use or extraction does not by unfair, improper, or market-destructive means, seriously harm or impair the opportunities for that other person to recoup his or her investment and turn a reasonable profit.

The third provision applies only if there emerges a grey area where it is uncertain whether the educational or scientific use crosses the line into a prohibited use. In such cases, criteria drawn from the fair use provisions of copyright law may meaningfully be invoked. At the same time, we recognize the duty of scientists to pay for the use of commercial research tools developed by firms engaged in this specialized field. These provisions are as follows:

(iii) In determining the applicability of subsection (ii), courts may take into account:

- ◆ the purpose and character of the use or extraction;

- ♦ the nature of the protected collection of information, including the fact that it may have constituted a commercial research tool developed or sold by a firm substantially engaged in the production of such tools;
- ♦ the amount and substantiality of the information used or extracted in relation to the product or service incorporating the collection of information;
- ♦ and the effect of the use or extraction on the gatherers' opportunities to recoup their investments and turn a profit in the market for that same product or service.

At this point, we inject a possible alternative to the foregoing Section 1303 (c) (i), (ii), (iii), which is drawn from one of the solutions set out in the exceptions for stock market data, viz:

[Possible alternative to (ii) and (iii) above: (c) No person who for educational, scientific, or research purposes extracts or uses information collected or generated by another person or entity shall incur liability under this Chapter so long as such use or extraction is not part of a consistent pattern engaged in for the purpose of direct competition in the relevant market.]

In any event, the existing "harm to market test" is again deleted, viz:

~~(d) NONPROFIT EDUCATIONAL, SCIENTIFIC, OR RESEARCH USES- Nothing in this chapter shall restrict any person from extracting or using information for nonprofit educational, scientific, or research purposes in a manner that does not harm directly the actual or potential market for the product or service referred to in section 1302.~~

Finally, the application of this exception to all data – "published" or "unpublished" – is clarified, without impairing the operations of trade secret law, viz:

(iv) The fact that a collection of information is unpublished shall not of itself render impermissible the use or extraction of information otherwise allowed within the criteria set out in this provision, so long as that information has otherwise been made available to the public.

(b) Section 1305 - Relationship to Other Laws: 1305 (e) - Licensing

At this point, we must necessarily connect the exceptions for research and educational uses just described with the need for research and educational users to gain access to data (especially in the online environment) on terms that do not vitiate or offset those same exceptions. As previously noted, when the private sector or other nongovernmental entities fund the generation or distribution of data that are made available to the public, the ability of scientists and educators to gain access to those data for public-good activities remains indispensable. Here the problem is that the ability of science and education to pay the going, commercial rates charged for access may not be

commensurate with their resources or with the public interest in a strong, basic scientific and educational establishment. The solution is not to shunt the problems of science onto publishers, who have their own business risks to manage, but to ensure that publishers who benefit from legal protection of their databases charge scientific and educational users fair and equitable access fees that take account of the overriding public interest at stake.

When, accordingly, data not funded by government are made available to the public under a new law that protects investments in databases, that law should preclude the provider from denying access to (and use of) the data on fair and equitable terms and conditions for research or educational purposes. The law could also require that researchers and educators who thus obtain privately funded data should pay equitable compensation for these uses.

In such cases, the quantum of equitable compensation to be paid for access to such data for research and educational purposes should take account of: (1) the private vendor's costs of generating and delivering the data; (2) the user's ability reasonably and fairly to contribute to offsetting those costs while fulfilling its research or educational mission; and (3) the extent to which the activities in question are of a commercial or not-for-profit character. Whenever feasible, this calculus should always be made on the basis of a blanket or multi-use license permitting unrestricted access to and use of the data in question, and not on a pay-per-use basis, which would render data too expensive for these socially important classes of users.

It should remain clear that any person or entity that has gained access to data by means of these provisions would remain free to make any use of the data so obtained, for research or educational purposes, without further or additional payment to the data vendor beyond the equitable compensation just described. Data vendors accordingly should be prohibited from using technical measures or devices for the management of data or the rights therein, including telecommunications networks, computer programs, or encryption devices, to defeat or impede the research or educational activities governed by these principles. Similarly, attempts by data vendors to vary, contradict, or limit the stated conditions of access to data for research or educational purposes by contractual agreement should be deemed unenforceable on grounds of public policy.

These provisions are effectuated in Section 1305 (e), as we seek to amend it, and are reproduced below. In evaluating this indispensable proposal, one also should recall that the Administration implicitly supports such action when it calls attention to the need to reduce transaction costs in constructing complex databases. The proposed amendment, which applies *only* to access contracts with educational, scientific, and research entities, allows the unrestricted flow of upstream scientific data to continue, while promoting bargaining between the parties with a view to establishing price discrimination and, where, feasible, product differentiation.

Here is the proposed amendment in its entirety:

Section 1305 (e) - LICENSING

(1) Nothing in this chapter shall restrict the rights of parties freely to enter into licenses or any other contracts with respect to the use of collections of information, so long as those licenses or contracts are not inconsistent with the policies and provisions implemented in this chapter, or in other federal intellectual property laws, including Section 1303 (a), forbidding contracts that impede extraction or use of insubstantial parts of protected collections, and Section 1305 (e) (2), concerning licenses or contracts governing access to protected collections of information for educational, scientific, or research purposes.

(2) Whenever a given collection of information not substantially funded by government within the purview of Section 1304 above is made available to the public by electronic or other means, those who benefit from the protection of this Act must allow anyone to access that information for educational, scientific, or research purposes in exchange for fair and equitable compensation that takes into account

(i) the private vendor's cost of generating and delivering the relevant information;

(ii) the user's ability reasonably and fairly to contribute to offsetting those costs while fulfilling its educational, scientific, or research missions; and

(iii) the extent to which the activities in question are of a commercial or not-for-profit character.

Use or extraction of the information once accessed under this provision for nonprofit educational, scientific, or research purposes is not subject to additional charges, as provided in Sections 1303 (c) and (d) above.

[An alternative approach, based on the "sword of Damocles" clause mentioned above, is not discussed here because it fails to satisfy all the exigencies identified in the Administration's position, as set out in the August 4 *Pincus* letter].

[End of Part 1]

- (c) Other important amendments, including those bearing on government data, the public domain, and the term of protection

[To be continued]

September 4, 1998

Revised Amendments to H.R. 2281 concerning

- 1. Permitted acts for scientific, educational and research purposes;**
- 2. Exclusions;**
- 3. Definition of "collections of information";**
- 4. Licensing**

**Submitted by
the National Academy of Sciences
National Academy of Engineering
and the Institute of Medicine**

**for consideration by
the Senate Committee on the Judiciary**

Explanatory Memorandum

1. In response to the discussions on August 19, we have further refined our previous submission concerning "permitted acts for scientific, educational, and research purposes" (dated August 19, 1998) as follows:

- (a) by adding a clause to Section 1303(c)(i)(C) to cover "illustration and explanation in the course of teaching or classroom instruction;" and
- (b) by adding a clause to Section 1303(c)(iii)(A) on the purpose and character of the use, to allow courts to consider "the extent to which such extraction or use is of a commercial nature or is intended for nonprofit educational or research purposes." This meets a need raised by the proponents at the last meeting.

However, we are unwilling to tinker with the rest of this provision, including the exception for verification, in order to cover the many colorful scenarios and hypotheticals pertaining to "rogue" scientists or publishers that proponents wish to cover by specific legislative enactments. We believe all the proponents' legitimate needs and concerns are covered by our Section 1302(c)(ii), which adopts solid criteria proposed by proponents themselves.

As representatives of the proponents have repeatedly observed, this is a new Act and neither side can or should attempt to legislate now about a myriad of unforeseen or unforeseeable events. Rather, our object is to clarify the space in which science and education can legitimately operate without interference from publishers and without harming the publisher's legitimate commercial expectations. We have done this by creating standards (rather than rules) that allow scientists and educators to pursue the same activities that were previously legitimate under the copyright law, so long as they do not cross the line into the commercial territory protected by this Act. The guiding principle is that science and education should be left no worse off than they were before, and this is accomplished by our proposal. If proponents desire a compulsory arbitration clause for disputes arising in the research and education environment, we would consider that with attention.

2. We propose a new, basic exclusion of protection for discrete facts, ideas, principles, etc., as such, which would reinforce the definition of "collection of information." This appears as a new Exclusion, Section 1304(c).
3. As instructed, we have also added language to the legislative history regarding "Clarification of Definition - 1303 Collection of Information." Our proposal builds on points developed in preceding discussions, and also addresses the potential conflict with trade secret law.

4. We call your attention to the fact that our proposals concerning "permitted acts for scientific, educational, and research purposes" (§1303 (c)) must be correlated with the Academies' various proposals concerning licensing in our previous submission. These include:

- a) 1303(a) - Prohibition on contractual override of the insubstantial use exception;
- b) 1303(b) - No refusal to license on reasonable terms and conditions when a given collection cannot be independently regenerated (sole-source problem);
- c) 1305(e)(i) - All licenses must respect other federal laws;
 - ◊ 1305(e)(2) - Compulsory license for access contracts affecting educational, scientific, and research entities;
 - ◊ 1305(e)(3) - Licenses not to overrule exceptions or limitations provided by this Act;
 - ◊ 1305(e)(4) - Technical measures and devices not to defeat or interfere with exceptions and limitations provided in this Act.

In this connection, we call your attention to our third alternative proposal for a general licensing clause under §1305(e)(2), in the event that our preferred option, a compulsory license for science and education, is not adopted. For convenience, we attach this third proposal to this submission as Alternative 3 to §1305(e)(2) - Licensing.

September 4, 1998

Academies' Revised Proposed Amendment to H.R. 2281 Concerning Permitted Acts for Scientific, Educational, and Research Purposes

[N.B.: Underlined text below is new.]

1303 (e) (i) Nothing in this chapter shall prohibit or otherwise restrict the extraction from or use of a collection of information protected under this chapter for the following purposes:

- (A) for the purpose of verifying the accuracy of information independently gathered, organized, or maintained by any person or of information otherwise lawfully obtained;
- (B) for the purpose of summarizing or analyzing a collection of information by statistical or other scientific method; or
- (C) for educational, scientific or research purposes, including illustration and explanation in the course of teaching or classroom instruction, so long as such use or extraction is not part of a consistent pattern engaged in for the purpose of direct competition in the relevant market.

(ii) A use permitted under subsection (i) of this section shall not be permitted if:

- (A) the amount of the collection of information extracted or used is more than is reasonable and customary for the purpose;
- (B) the extraction or use is intended, or is likely, to serve as a substitute for all or a substantial part of the collection of information from which the extraction or use is made; or
- (C) the extraction or use is part of a pattern, system, or repeated practice by the same, related, or concerted parties with respect to the same collection of information or a series of related collections of information.

(iii) In determining the applicability of subsection (c), courts may consider the following factors:

- (A) the purpose and character of the extraction or use, especially when it pertains to criticism, comment, teaching, scholarship, or research, and the extent to which such extraction or use is of a commercial nature or is intended for nonprofit educational or research purposes;
- (B) the nature of the protected collection of information and the purpose for which it was produced, including the fact that it may have constituted a commercial research or educational tool developed or sold by a firm substantially engaged in the production of such tools;
- (C) the amount and substantiality of the information used or extracted in relation to the product or service incorporating the collection of information; and

- (D) the effect of the extraction or use on the gatherers' opportunities to recoup their investment and turn a reasonable profit in the market for that same product or service.

Explanation

Together with other critics of H.R. 2281, we oppose any legislation that would engraft an exclusive property right on data, or collections of data. We believe that such a bill would contain serious constitutional infirmities, as raised by the July 28 Department of Justice memorandum and as noted in our Explanatory Memorandum of August 13. We do support a true misappropriation approach, such as the one that was put on the table in these negotiations, and we believe it could become a model for the rest of the world. It effectively resolves the problem of database piracy in a constitutionally sound manner; it is simple and adaptable to the evolving needs of the information economy; it could be extended to other industries without diminishing competition; and it does not threaten to disrupt science, education, and research.

Under any approach that might be adopted, however, we remain confident that Congress would not want to harm science and education in the ways that the Commerce and Justice Departments have deemed likely to occur under H.R. 2281 as it now stands. To help avoid such harm, we submit a carefully considered proposal for an amendment to Section 1303(c) concerning permitted acts for scientific, educational, and research purposes.

This amendment builds on language that proponents of the bill have themselves used in other connections, and it also draws upon some of the teachings and practices of the fair use doctrine under copyright law. Our proposal safeguards research practices while ensuring that the free-riding practices that database providers most fear are made illegal. It also appears likely that many similar amendments dealing with the needs of other sectors – both commercial and noncommercial – will be needed, and will require considerable time and effort to work these out in the public interest.

We believe that under any circumstance, Congress would want to enact a bill that contains these minimal safeguards for science and education, and that it would not wish to put the national system of innovation at risk.

Section 1304 Exclusions**Insert new Section (c)****(c) FACTS AND IDEAS AS SUCH.**

In no case does the protection afforded a collection of information within the provision of this Act extend to any idea, facts, procedure, process, system, method or operation, concept, principle or discovery, as distinct from the collection that is the product of the investment protected by this Act.

Clarification of Definition

1301(1) COLLECTION OF INFORMATION. – The term “collection of information” means information that has been collected and has been organized for the purpose of bringing discrete items of information together in one place or through one source in order that users may access those discrete items.

Proponents' Proposed Addition

We believe further clarification is best treated in legislative history, such as – but not necessarily exactly the same as – that already in the House report. The statutory changes made here are matters of emphasis. The use of “in order” is to emphasize that the purpose of the collector is determinative. Thus, the fact that a user may consult a conventional history book to discover the dates of a king's reign does not convert that book into a “collection of information.” Similarly, the use of “those discrete items” is to make absolutely clear that it is the collector's purpose to provide users with access to the items themselves, not merely to the collection, that is critical.

Opponents' Proposed Addition

In elaborating upon this definition, the guiding principle is that the Act is not meant to be infinitely elastic, but rather it is meant to apply only to collections of information that would be regarded as a “database” in the ordinary and conventional sense of the word. If a given production is not what would conventionally constitute either a print or electronic database, then courts may find that it is not a database for purposes of attracting protection under this Act.

Moreover, when any given collection of information qualifies for protection under this Act, it is understood that the protected element is the effort and expense of collection itself, and not the facts or ideas or discrete items it contains, including works of authorship as such (see proposed exception 1304 (c)). If the copyright law protects any discrete item or items included within a collection covered by this act, then that degree of copyright protection should suffice for the discrete item or items in question. There is, thus, no intention to augment or expand the protection that any such discrete item or items might obtain under the copyright law or other relevant laws, including state trade secret laws.

In this connection, it is understood that the protection provided by this Act cannot be used to hinder or obstruct the reverse engineering of secret, unpatented innovation by honest or proper means. The purpose of reverse engineering would normally be to reveal

the unprotectable facts, ideas, methods, concepts, systems, principles, or discoveries that are expressly excluded from this Act by our proposed amendment to Section 1304 (c), above. In the event that activities pertaining to the practice of reverse engineering by proper means should conflict with a claim of database protection under this Act, a presumption of validity logically attaches to the activities in question. This presumption recognizes the competitive and economic functions that reverse engineering by proper means perform, and of the constitutional underpinnings courts have developed with regard to such activities [*see* Restatement, Third, of Unfair Competition, section 43, comment b, which states: "Similarly, others remain free to analyze products publicly marketed by the trade secret owner and, absent protection under a patent or copyright, to exploit any information acquired through such 'reverse engineering.' A person may also acquire a trade secret through an analysis of published materials or through observation of objects or events that are in public view or otherwise accessible by proper means.", at 493.]. However, such a presumption becomes rebuttable whenever the end product resulting from the practice of reverse engineering tends to substitute for or commercially exploit the contents of a protected database, or when it adversely affects the ability of a database maker to recoup their investment and turn a reasonable profit in the market for a given collection of information.

Section 1305(e)(2) - Licensing in General - Third Alternative Proposal

(2) No license or other contractual agreement governing access or use of collections of information within this Act shall contain terms or conditions, including charges for access or use, that are contrary to the public interest in the promotion of education and research or in the preservation of a competitive marketplace. If a court as a matter of law finds that a term or condition is impermissible under this section, the court may refuse to enforce the contract, or it may enforce the remainder of the contract without the impermissible term, or it may so limit the application of any impermissible term as to avoid any violation of this section. In determining whether a term or condition is impermissible under this section the courts may consider:

(i) the extent to which the information contained in the collection was or was not originally funded by government within the purview of Section 1304 (a) and the extent to which it was initially developed for public purposes;

(ii) the private vendor's costs of generating and delivering the relevant information and the extent to which the use by the person granted access to the collection of information is likely to seriously diminish the likelihood that the vendor will have a fair opportunity to recoup his or her investment and turn a reasonable profit in the market for which the collection of information was initially offered or intended to be offered for use;

(iii) the extent to which requiring the user to contribute to the costs of acquiring or maintaining the collection will hamper education or research or adversely affect competition; and

(iv) the extent to which the user's activities are of a commercial or not-for-profit character.

Use or extraction of the information once accessed under this provision for nonprofit educational, scientific, or research purposes is not subject to additional charges, as provided in Sections 1303 (c) and (d) above.

September 4, 1998

Revised Amendments to H.R. 2281 concerning

- 1. Permitted acts for scientific, educational and research purposes;**
- 2. Exclusions;**
- 3. Definition of "collections of information";**
- 4. Licensing**

**Submitted by
the National Academy of Sciences
National Academy of Engineering
and the Institute of Medicine**

**for consideration by
the Senate Committee on the Judiciary**

Explanatory Memorandum

1. In response to the discussions on August 19, we have further refined our previous submission concerning "permitted acts for scientific, educational, and research purposes" (dated August 19, 1998) as follows:

- (a) by adding a clause to Section 1303(c)(i)(C) to cover "illustration and explanation in the course of teaching or classroom instruction;" and
- (b) by adding a clause to Section 1303(c)(iii)(A) on the purpose and character of the use, to allow courts to consider "the extent to which such extraction or use is of a commercial nature or is intended for nonprofit educational or research purposes." This meets a need raised by the proponents at the last meeting.

However, we are unwilling to tinker with the rest of this provision, including the exception for verification, in order to cover the many colorful scenarios and hypotheticals pertaining to "rogue" scientists or publishers that proponents wish to cover by specific legislative enactments. We believe all the proponents' legitimate needs and concerns are covered by our Section 1302(c)(ii), which adopts solid criteria proposed by proponents themselves.

As representatives of the proponents have repeatedly observed, this is a new Act and neither side can or should attempt to legislate now about a myriad of unforeseen or unforseeable events. Rather, our object is to clarify the space in which science and education can legitimately operate without interference from publishers and without harming the publisher's legitimate commercial expectations. We have done this by creating standards (rather than rules) that allow scientists and educators to pursue the same activities that were previously legitimate under the copyright law, so long as they do not cross the line into the commercial territory protected by this Act. The guiding principle is that science and education should be left no worse off than they were before, and this is accomplished by our proposal. If proponents desire a compulsory arbitration clause for disputes arising in the research and education environment, we would consider that with attention.

2. We propose a new, basic exclusion of protection for discrete facts, ideas, principles, etc., as such, which would reinforce the definition of "collection of information." This appears as a new Exclusion, Section 1304(c).
3. As instructed, we have also added language to the legislative history regarding "Clarification of Definition - 1303 Collection of Information." Our proposal builds on points developed in preceding discussions, and also addresses the potential conflict with trade secret law.

4. We call your attention to the fact that our proposals concerning "permitted acts for scientific, educational, and research purposes" (§1303 (c)) must be correlated with the Academies' various proposals concerning licensing in our previous submission. These include:

- a) 1303(a) - Prohibition on contractual override of the insubstantial use exception;
- b) 1303(b) - No refusal to license on reasonable terms and conditions when a given collection cannot be independently regenerated (sole-source problem);
- c) 1305(e)(i) - All licenses must respect other federal laws;
 - ◊ 1305(e)(2) - Compulsory license for access contracts affecting educational, scientific, and research entities;
 - ◊ 1305(e)(3) - Licenses not to overrule exceptions or limitations provided by this Act;
 - ◊ 1305(e)(4) - Technical measures and devices not to defeat or interfere with exceptions and limitations provided in this Act.

In this connection, we call your attention to our third alternative proposal for a general licensing clause under §1305(e)(2), in the event that our preferred option, a compulsory license for science and education, is not adopted. For convenience, we attach this third proposal to this submission as Alternative 3 to §1305(e)(2) - Licensing.

September 4, 1998

Academies' Revised Proposed Amendment to H.R. 2281 Concerning Permitted Acts for Scientific, Educational, and Research Purposes

[N.B.: Underlined text below is new.]

1303 (c) (i) Nothing in this chapter shall prohibit or otherwise restrict the extraction from or use of a collection of information protected under this chapter for the following purposes:

- (A) for the purpose of verifying the accuracy of information independently gathered, organized, or maintained by any person or of information otherwise lawfully obtained;
- (B) for the purpose of summarizing or analyzing a collection of information by statistical or other scientific method; or
- (C) for educational, scientific or research purposes, including illustration and explanation in the course of teaching or classroom instruction, so long as such use or extraction is not part of a consistent pattern engaged in for the purpose of direct competition in the relevant market.

(ii) A use permitted under subsection (i) of this section shall not be permitted if:

- (A) the amount of the collection of information extracted or used is more than is reasonable and customary for the purpose;
- (B) the extraction or use is intended, or is likely, to serve as a substitute for all or a substantial part of the collection of information from which the extraction or use is made; or
- (C) the extraction or use is part of a pattern, system, or repeated practice by the same, related, or concerted parties with respect to the same collection of information or a series of related collections of information.

(iii) In determining the applicability of subsection (c), courts may consider the following factors:

- (A) the purpose and character of the extraction or use, especially when it pertains to criticism, comment, teaching, scholarship, or research, and the extent to which such extraction or use is of a commercial nature or is intended for nonprofit educational or research purposes;
- (B) the nature of the protected collection of information and the purpose for which it was produced, including the fact that it may have constituted a commercial research or educational tool developed or sold by a firm substantially engaged in the production of such tools;
- (C) the amount and substantiality of the information used or extracted in relation to the product or service incorporating the collection of information; and

- (D) the effect of the extraction or use on the gatherers' opportunities to recoup their investment and turn a reasonable profit in the market for that same product or service.

Explanation

Together with other critics of H.R. 2281, we oppose any legislation that would engraft an exclusive property right on data, or collections of data. We believe that such a bill would contain serious constitutional infirmities, as raised by the July 28 Department of Justice memorandum and as noted in our Explanatory Memorandum of August 13. We do support a true misappropriation approach, such as the one that was put on the table in these negotiations, and we believe it could become a model for the rest of the world. It effectively resolves the problem of database piracy in a constitutionally sound manner; it is simple and adaptable to the evolving needs of the information economy; it could be extended to other industries without diminishing competition; and it does not threaten to disrupt science, education, and research.

Under any approach that might be adopted, however, we remain confident that Congress would not want to harm science and education in the ways that the Commerce and Justice Departments have deemed likely to occur under H.R. 2281 as it now stands. To help avoid such harm, we submit a carefully considered proposal for an amendment to Section 1303(c) concerning permitted acts for scientific, educational, and research purposes.

This amendment builds on language that proponents of the bill have themselves used in other connections, and it also draws upon some of the teachings and practices of the fair use doctrine under copyright law. Our proposal safeguards research practices while ensuring that the free-riding practices that database providers most fear are made illegal. It also appears likely that many similar amendments dealing with the needs of other sectors – both commercial and noncommercial – will be needed, and will require considerable time and effort to work these out in the public interest.

We believe that under any circumstance, Congress would want to enact a bill that contains these minimal safeguards for science and education, and that it would not wish to put the national system of innovation at risk.

Section 1304 Exclusions

Insert new Section (c)

(c) FACTS AND IDEAS AS SUCH.

In no case does the protection afforded a collection of information within the provision of this Act extend to any idea, facts, procedure, process, system, method or operation, concept, principle or discovery, as distinct from the collection that is the product of the investment protected by this Act.

Clarification of Definition

1301(1) COLLECTION OF INFORMATION. – The term “collection of information” means information that has been collected and has been organized for the purpose of bringing discrete items of information together in one place or through one source in order that users may access those discrete items.

Proponents' Proposed Addition

We believe further clarification is best treated in legislative history, such as – but not necessarily exactly the same as – that already in the House report. The statutory changes made here are matters of emphasis. The use of “in order” is to emphasize that the purpose of the collector is determinative. Thus, the fact that a user may consult a conventional history book to discover the dates of a king's reign does not convert that book into a “collection of information.” Similarly, the use of “those discrete items” is to make absolutely clear that it is the collector's purpose to provide users with access to the items themselves, not merely to the collection, that is critical.

Opponents' Proposed Addition

In elaborating upon this definition, the guiding principle is that the Act is not meant to be infinitely elastic, but rather it is meant to apply only to collections of information that would be regarded as a “database” in the ordinary and conventional sense of the word. If a given production is not what would conventionally constitute either a print or electronic database, then courts may find that it is not a database for purposes of attracting protection under this Act.

Moreover, when any given collection of information qualifies for protection under this Act, it is understood that the protected element is the effort and expense of collection itself, and not the facts or ideas or discrete items it contains, including works of authorship as such (see proposed exception 1304 (c)). If the copyright law protects any discrete item or items included within a collection covered by this act, then that degree of copyright protection should suffice for the discrete item or items in question. There is, thus, no intention to augment or expand the protection that any such discrete item or items might obtain under the copyright law or other relevant laws, including state trade secret laws.

In this connection, it is understood that the protection provided by this Act cannot be used to hinder or obstruct the reverse engineering of secret, unpatented innovation by honest or proper means. The purpose of reverse engineering would normally be to reveal

the unprotectable facts, ideas, methods, concepts, systems, principles, or discoveries that are expressly excluded from this Act by our proposed amendment to Section 1304 (c), above. In the event that activities pertaining to the practice of reverse engineering by proper means should conflict with a claim of database protection under this Act, a presumption of validity logically attaches to the activities in question. This presumption recognizes the competitive and economic functions that reverse engineering by proper means perform, and of the constitutional underpinnings courts have developed with regard to such activities [see Restatement, Third, of Unfair Competition, section 43, comment b, which states: "Similarly, others remain free to analyze products publicly marketed by the trade secret owner and, absent protection under a patent or copyright, to exploit any information acquired through such 'reverse engineering.' A person may also acquire a trade secret through an analysis of published materials or through observation of objects or events that are in public view or otherwise accessible by proper means.", at 493.]. However, such a presumption becomes rebuttable whenever the end product resulting from the practice of reverse engineering tends to substitute for or commercially exploit the contents of a protected database, or when it adversely affects the ability of a database maker to recoup their investment and turn a reasonable profit in the market for a given collection of information.

Section 1305(e)(2) - Licensing in General - Third Alternative Proposal

(2) No license or other contractual agreement governing access or use of collections of information within this Act shall contain terms or conditions, including charges for access or use, that are contrary to the public interest in the promotion of education and research or in the preservation of a competitive marketplace. If a court as a matter of law finds that a term or condition is impermissible under this section, the court may refuse to enforce the contract, or it may enforce the remainder of the contract without the impermissible term, or it may so limit the application of any impermissible term as to avoid any violation of this section. In determining whether a term or condition is impermissible under this section the courts may consider:

(i) the extent to which the information contained in the collection was or was not originally funded by government within the purview of Section 1304 (a) and the extent to which it was initially developed for public purposes;

(ii) the private vendor's costs of generating and delivering the relevant information and the extent to which the use by the person granted access to the collection of information is likely to seriously diminish the likelihood that the vendor will have a fair opportunity to recoup his or her investment and turn a reasonable profit in the market for which the collection of information was initially offered or intended to be offered for use;

(iii) the extent to which requiring the user to contribute to the costs of acquiring or maintaining the collection will hamper education or research or adversely affect competition; and

(iv) the extent to which the user's activities are of a commercial or not-for-profit character.

Use or extraction of the information once accessed under this provision for nonprofit educational, scientific, or research purposes is not subject to additional charges, as provided in Sections 1303 (c) and (d) above.

September 4, 1998

The Honorable Orrin G. Hatch
Chairman,
Committee on the Judiciary
U. S. Senate
Washington, DC 20510

The Honorable Patrick Leahy
Ranking Member
Committee on the Judiciary
U.S. Senate
Washington, DC 20510

Dear Senator Hatch and Senator Leahy:

I am writing to express my concern with the database protection provisions of HR 2281 as they passed the House of Representatives. I understand that similar database legislation will be considered by your committee. I will outline below my reasons for urging you to support changes in the legislation. I am a Professor of Law at the University of Nebraska College of Law. I have taught in the field of unfair competition and intellectual property for over 30 years, and I have a casebook in the field that has been widely adopted by law schools throughout the country. I also served recently as co-reporter for the American Law Institute's Restatement, Third, of Unfair Competition. I do not regard myself as partial to either the creators or users of intellectual property (I am both a creator and a user) but my study of the history of intellectual property protection convinces me that intellectual and industrial progress depends on achieving a proper balance between creators and users. HR 2281, as it currently stands, does not, in my opinion, strike the proper balance and thus may jeopardize our national interest.

Currently, the information industries of the United States are the envy of the world. It does not require an empirical study to recognize that current law, without systematic protection for databases, has created a legal climate conducive to the development and commercialization of databases of all kinds. To be certain, databases in the digital environment may be more vulnerable to copying and unfair exploitation, and the United States must be vigilant to protect this important industry. However, the central lesson of our intellectual property laws is that the level of creative activity can be adversely affected by too much legal protection for intellectual output as well as by too little.

The Honorable Orrin G. Hatch
September 4, 1998, Page 2

The problem is well illustrated by *Feist Publications, Inc. v. Rural Telephone Service Co.*, 499 U.S. 340 (1991), the Supreme Court case that held "sweat of the brow" databases were not protected by copyright law and which led, in part, to the efforts to enact a database bill. In *Feist*, the defendant wanted to combine the white pages of 11 small rural telephone companies into an area-wide directory. Of the eleven companies, only the plaintiff refused to license the use of its directory. The court held there was no copyright protection for plaintiff's directory. Protection of the plaintiff's database in this case could have resulted either in (1) no area-wide directory which would have been a loss to consumers, or (2) a license payment to the plaintiff that would have created less incentive for defendant to produce the directory. Moreover, it is important to recognize that the defendant was willing to invest in developing its area-wide directory even though there was no database protection available to it.

The challenge confronting Congress in considering additional database protection is how to enhance the current level of protection in order to encourage additional investment without at the same time unduly increasing the costs of acquiring the information in the first place. In doing so, it would appear to me that two fundamental options are available in fashioning this additional protection. The first is to model the statute after the copyright and patent statutes and create a *sui generis* intellectual property regime for databases. The second is to address in more narrow terms the types of behavior on the part of second-users that are particularly unfair and disruptive of investments in databases. This second approach would model itself after the law of unfair competition.

There are lessons to be learned about a property approach. The copyright law confers a property interest in an artist's expression. However, in order to achieve a proper balance, Congress added a general fair use privilege and an elaborate set of specific privileges for particular industries. HR 2281 goes much further than the copyright regime by providing protection for the underlying data within a database rather than the "expression" of that data. This broader scope should require even closer attention to the types of privileged uses that are necessary to achieve a proper balance and to assure no disruption in the creative process. Protecting the data itself is much more analogous to the type of protection accorded by the patent system. In the patent system where the property right extends to the ideas incorporated in the invention, Congress demanded proof of a significantly high level of invention and established an elaborate pre-issuance examination process. Moreover, the patent system, in return for the property interest, demands of the inventor full disclosure of the invention—a disclosure that would be unlikely to occur in the absence of the offer of patent protection.

Although HR 2281 appears to create a *sui generis* property interest in databases, it lacks either the carefully refined set of privileges evidenced in the copyright statute or the high level of invention and the return benefit of disclosure of the patent laws. Thus the current database protection proposal departs significantly from the balances that intellectual property law has adopted to enhance progress in science and the useful arts. In doing so, it runs the risk of diminishing the advantage the United States now possesses in intellectual creativity.

The Honorable Orrin G. Hatch
September 4, 1998, *Page 3*

Let me turn to the provisions of HR 2281 to explain my concerns in more detail. Section 1302 prohibits "misappropriation" of collections of information and thus purports to implement an "unfair competition" approach to the protection issue. However, the language of the section extends far broader protection than the normal rules of unfair competition. The most problematic language in this section is that which makes an extraction or use from a protected database actionable if it causes harm to the "actual or potential market" of the original. "Potential market" is defined in § 1301 as one that the owner "has current and demonstrable plans to exploit or that is commonly exploited by persons offering similar products or services . . ." This carves out for the originator a monopoly in broad terms. A database owner by documenting an intention to exploit all markets of economic significance and by designating a market-development agent to constantly explore economic opportunities would appear to be able to foreclose almost all markets. Moreover, it is not clear to what time frame the "current and demonstrable plans" language relates. A second-user who through its own sweat of the brow or creativity develops an entirely new and innovative use for an existing database might be foreclosed from exploiting that market if the originator, upon learning of this new market, made its own "current and demonstrable plans". Thus it is conceivable that a market innovator could be uprooted from a market by the originator. This will serve to discourage innovation and is a significant departure from any unfair competition model.

The language of § 1303 establishes permitted uses. Rather than assuring a proper balance, this provisions may make matters worse. Subsection (e) regarding news reporting is the subsection most closely aligned with traditional notions of unfair competition in the copying of information unprotected by copyright or patent. It permits extraction and use of information for news reporting purposes, "unless the information . . . is time sensitive, has been gathered by a news reporting entity for distribution in a particular market, has not yet been distributed to that market, and the extraction or use is [part of a consistent pattern]. This subsection describes the activity present in *International News Service vs. Associated Press*, 248 U.S. 215 (1918), from which the misappropriation doctrine is derived. It describes the type of conduct that destroys the original market for the work and thus significantly reduces the incentive to produce the work in the first place.

The difference between subsection (e) and subsection (d) which relates to educational, scientific, or research uses is striking. For these latter uses, which I submit are as important as news reporting, a much more limited use is permitted—one that does not directly harm the actual market of the originator. This is a much narrower privilege than accorded news reporting and the scope of and the time for determining the "actual" market are unclear. I think a number of questions can be fairly asked: First, how will courts distinguish between news gathering and reporting on the one hand and research and scientific publication on the other, since in a central sense scientific research and publication is the gathering and reporting of news. Second, assuming one can draw a distinction between publishing in the *New York Times* and publishing in the *New England Journal of Medicine*, why would one want to do so?

The Honorable Orrin G. Hatch
September 4, 1998, Page 4

Such a limit on scientific research is dangerous. Assume Company A collects sufficient data to support a new drug application for the treatment of a particular disease. Company B uses the data, verifies it is accurate, but manipulates the database to demonstrate that in fact the new drug has significant side-effects. Company A's database itself has value because it could be licensed to others wanting to produce the drug, but the subsequent research by Company B harms the actual market of Company A and is thus in violation of the Act.

The potential social costs of this broad privatizing of information are multiplied by the breathtaking scope of the definition of "collection of information" which covers, at least, all of the raw data upon which education and scientific research is based and by the fact that HR 2281 provides protection for the underlying facts and ideas in a database as well as the database itself. For example, a literal reading of HR 2281 would make any book based on scientific research a "product or service that incorporates that collection of information" under § 1302 and thus any use of the data to challenge the thesis of the book (which might thereby harm the actual market for the book) would violate the Act. This would be an incredible interference with the free marketplace of ideas and a destructive blow to scientific progress.

The absence of any privilege in § 1303 for transformative uses other than for news reporting and education and scientific research coupled with the broad definition of "potential market" means that every transformative use of an existing collection of information resulting in new uses or new innovations is vulnerable to a claim of violation and the threat of litigation or enforced payments.

I understand that providing protection for databases does not inevitably result in exclusion of others from their use. First, potential second-users can theoretically regenerate the database by collecting the data from original sources. Given the scope of the definition of "collections of information," there will be many instances in which the economic returns from the data will be sufficiently small or risky to make regeneration infeasible. Many significant databases appear to be single source collections. Consider the array of fossils collected by Louis and Mary Leaky from Olduvai Gorge in Africa thought to show the evolution of human life. This array would seem to be a "collection of information" under the act and would be impossible to regenerate.

Potential users, of course, can negotiate with database owners for use of the database and can arrive at a fair market royalty for each use. In terms of creating overall incentives for investments in intellectual creativity, however, such licensing arrangements are at best a wash. Any additional incentive license fees provide to the originator to invest in the original database detracts from the incentives on others to invest in utilizing the database for new and socially useful purposes. For example, in government sponsored research, license fees for access to databases are likely to be passed on to the granting agency which will either require additional tax resources or result in less supported research. Moreover, owners of databases will retain an incentive to deny use entirely to any user who might undermine the validity or market value of

The Honorable Orrin G. Hatch
September 4, 1998, Page 5

products, services, or scientific theories based on the protected database.

In addition to these important policy issues, the breadth of protection provided in this bill may raise issues of constitutional dimension. Although I acknowledge that the constitutional limits on Congress in providing protection are far from clear, the protection of ideas and factual information that can not qualify for patent protection raises serious questions, both under the Article I, Section 8 and under the First Amendment. The reverse engineering of publicly available ideas and information by competitors is an important element of a competitive marketplace and may have constitutional underpinnings. In any event, I remain convinced that the regime of narrowly focused protection for intellectual property coupled with protection of a public domain of ideas and information have served our economy and our country well.

For these reasons, I hope your committee will consider HR 2281 with a cautious eye, one focused on the need for achieving a careful balance by prohibiting conduct that is demonstrably unfair and destructive of incentives to create but also by clearly permitting uses that assure intellectual progress. I believe it would be possible in relatively short order to draft a provision modeled on unfair competition principles that would provide sufficient protection to enhance incentives for innovation. Providing broader protection and at the same time achieving an appropriate balance would require a long and careful study of the nature and scope of appropriate permitted uses to preserve both educational and scientific inquiry and also competitive vitality. Such an approach would also need to carefully consider limiting protection to the effort necessary to create the database while assuring that the underlying ideas and facts themselves remained in the public domain.

Sincerely,

Harvey Perlman
Professor of Law

Mr. COBLE. Thank you, Professor.
Mr. Kirk.

**STATEMENT OF MICHAEL KIRK, EXECUTIVE DIRECTOR,
AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION**

Mr. KIRK. Thank you, Mr. Chairman.

I'm pleased to have the opportunity on behalf of the 10,000 members of the American Intellectual Property Law Association, first of all, to wish you a happy birthday, and secondly, to express our views on H.R. 354.

The need to protect databases created through the investment of time and money against free riders who would copy them has been clearly established. *Feist* reversed nearly two centuries of copyright law jurisprudence under which American courts protected against copying databases created by a compiler's investment of time, effort and money. After *Feist* the more comprehensive and complete a database, the less likely that meaningful, if any, protection under copyright law will exist.

Other forms of protection, as was noted earlier today, simply do not fill in the gap created by *Feist*, leaving the investment in the creation of databases for use by businesses, researchers and educators at risk.

Another compelling reason for enactment of H.R. 354, in our opinion, is the European Database Directive, which requires European member states to implement a *sui generis* form of protection for databases on a reciprocal basis. A database created in the United States by a company with insufficient European presence will only receive protection under the directive if the United States offers comparable protection to EU databases. This directive was motivated by the imbalance in the investments in the database sector between the community and other countries.

Just last month the European Union again signaled its intention to modify its IP laws to help European industry, in this case to encourage greater efforts in the creation and patenting of computer software. The message to us is clear: the EU is committed to amending its IP laws to strengthen the international competitiveness of European industry. We believe the United States can afford to do no less.

H.R. 354 reflects continuing efforts by you and members of the subcommittee, Mr. Chairman, to fill this void created by *Feist*. It continues the misappropriation approach for the protection of databases first set forth in the last Congress in H.R. 2652. It protects against the free rider who harms the market of the database creator through the sale of products generated by the taking of a substantial part of the creator's database.

At the same time this protection is carefully balanced with limitations and exclusions including a newly added "fair use type" exemption permitting use or extraction for teaching, research or analysis if reasonable under the circumstances; a clarification that extraction of individual fact is not precluded; and an express confirmation that nothing in the bill restricts the use of such information for news reporting; Government-generated information, computer programs and information used to facilitate the functioning of the Internet are also excluded. Finally, another new provision in

H.R. 354, commented upon earlier, establishes a 15 year term by precluding any action for the extraction or use of a collection of information that occurred more than 15 years after that collection was first offered for sale.

AIPLA recognizes that the incentives provided in H.R. 354 must be balanced to assure that access to information for educational and research needs is not unduly inhibited. However, to ensure that these balancing exceptions and limitations do not create uncertainty for the creators of databases or their users—and I would say undue uncertainty—we would suggest that guidelines and illustrative examples be included in the report language of this bill.

If I might digress just a moment, there will be no bright lines. That simply is not going to happen. Both sides can argue, I think, that the line is not clear and should move one way or the other. In the final analysis, however, there will be judgements as to where the line is to be drawn and the court will have to determine that. That exists today in the copyright law and many other fields of law.

Mr. Chairman, you and the other members of the subcommittee have made significant strides toward the balanced measure that we need to fill the void created by *Feist*. We believe that H.R. 354 will re-establish the incentives for continued American leadership in the field while addressing the legitimate needs of users. H.R. 354 is fundamentally sound and should be promptly enacted.

Thank you, sir.

[The complete statement of Mr. Kirk follows.]

PREPARED STATEMENT OF MICHAEL KIRK, EXECUTIVE DIRECTOR, AMERICAN
INTELLECTUAL PROPERTY LAW ASSOCIATION

Mr. Chairman:

I am pleased to have the opportunity to present the views of the American Intellectual Property Law Association (AIPLA) on H.R. 354, the "Collections of Information Antipiracy Act."

The AIPLA is a national bar association of approximately 10,000 members engaged in private and corporate practice, in government service, and in the academic community. The AIPLA represents a wide and diverse spectrum of individuals, companies and institutions involved directly or indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property.

INTRODUCTION

The AIPLA supports the protection for collections of information or databases as set forth in H.R. 354. We expressed our support for H.R. 2652, the predecessor of this bill, in conjunction with hearings held in October 1997 and February 1998. The legislation has undergone significant revisions since our earlier expressions of support to address concerns raised by the educational, scientific and research communities as well as by the Administration and the Register of Copyrights. Although we have a few suggestions regarding specific provisions of the legislation, they relate principally to report language. We believe that you have done an admirable job in crafting a balanced approach to provide the needed incentives for the continued creation of databases in the United States as well as to ensure their protection in our major foreign markets.

THE NEED FOR DATABASE PROTECTION

The AIPLA believes that the need for protection of databases, created through the considerable investment of time and money, against those who would copy them without permission or compensation is settled. The Supreme Court's rejection of the "sweat of the brow" basis for protecting compilations under copyright in *Feist Publications v. Rural Telephone Service Co.*, 449 U.S. 340 (1991) marked a sea change in the protection of databases. As detailed in Section I of the Report on Legal Pro-

tection for Databases (Report) prepared by the Copyright Office in 1997, for nearly two hundred years prior to *Feist*, American courts protected databases under copyright law against copying based on the compiler's investment of time, effort and money. After *Feist*, a compilation or database can be protected under copyright only if the selection, coordination, or arrangement of its contents satisfies the creativity standard of the copyright law. The reality of the gap created by *Feist* can perhaps best be appreciated when one realizes that the more comprehensive and complete and therefore valuable a database is, the less judgment will frequently be exercised in the selection, coordination or arrangement of its content and consequently the less likely that meaningful (if any) protection under copyright law will exist. Surely the adequacy of the existing regime for protecting databases under copyright must be questioned when it presumably grants greater protection to a smaller, highly selective database of arguably less general utility than to a large, all inclusive database of more general utility.

The problem is further compounded by the impact of *Feist* on the scope of copyright protection for databases. Stating that copyright in a factual database is "thin," the Supreme Court observed in *Feist* that a subsequent compiler is free to use the facts contained in another person's database as long as the selection and arrangement are not copied. In *Bellsouth Advertising & Publishing Corp. v. Donnelly Information Publishing, Inc.*, 999 F2d 1436 (11th Cir. 1993), the Eleventh Circuit held, in a case where copyrightability had been stipulated by the parties, that the copying of all of the names, addresses and telephone numbers of advertisers in the plaintiff's yellow pages did not infringe, because the plaintiff's selection, coordination and arrangement was either unprotectable or not copied. The Report observes that most of the post-*Feist* appellate cases have found wholesale taking of information from copyrightable compilations to be non-infringing and that district court cases are trending in this direction.

Whether the problem is that databases simply do not possess the requisite creativity in their selection, coordination or arrangement to qualify for copyright protection or whether the problem is more that copyright in databases is "thin," the incentive to invest in the compilation and collection of large amounts of information and data for use by businesses, researchers and educators is at risk.

Other forms of protection for databases cannot close the gap created by *Feist*. Trade secret law is only available to protect databases used inside a business where the requisite level of secrecy can be maintained. Disclosure of a database through sale or an online service precludes resort to trade secret protection. While contract law has been used to protect databases against unauthorized use, the lack of privity with unrelated third parties and the lack of uniformity of contract law from one state to the next reduce its effectiveness.

State common law misappropriation is also mentioned as a possible basis for protecting databases, especially after the Second Circuit's decision in *National Basketball Association v. Morotola, Inc.*, 105 F2d 841 (2d Cir. 1997). However, that case called for the information to be time-sensitive, or "hot," a criteria that could be fatal for the protection of a comprehensive, historical collection of information. Also, as with other forms of state law, the law of misappropriation which varies widely from state to state, would deny database compilers the uniformity and certainty needed to justify the substantial investments required for many of today's most useful databases.

Finally, technological protection is increasingly being looked to by database publishers. While technological protection may be an increasingly important means of protecting databases in the digital era, it is not a complete answer. Such means affect ease of use, increase costs, can be circumvented, do not prevent the use of a database that someone improperly obtains, and is primarily effective only for databases in electronic form.

There is another compelling reason for enactment of H.R. 354 and that is the European Database Directive adopted in 1996. The Directive requires the member states of the European Union to implement a *sui generis* form of protection for databases. Under the directive, an EU national or habitual resident who creates a database through substantial investment is given the right to prevent the extraction and/or re-utilization of all or a substantial part of the database. A database created in the United States by a company with insufficient European presence will only receive protection under the Directive if the United States offers comparable protection to EU databases. Failure of the United States to provide the arguably comparable protection of H.R. 354 will mean that United States-based database vendors will be increasingly placed in a disadvantageous competitive position vis-a-vis their EU counterparts in the large EU information market.

The issuance of the Database Directive was motivated in part by concern about the "very great imbalance in the level of investment in the database sector . . . be-

tween the Community and the world's largest database-producing countries." This willingness on the part of the European Union to promote investment in important market sectors was evidenced again just last month in "The follow-up to the Green Paper on the Community Patent and the Patent System in Europe." Noting that

- 6% of all patent applications in the United States are for computer programs as compared to less than 2% of Europe,
- 75% of the 13,000 European patents covering software are held by very large non-European companies, and
- investments in developing information technology and software programs are approaching \$40 billion annually,

the European Commission stated its intention to present, as soon as possible, a draft Directive to harmonize and clarify the patentability of computer programs and to encourage EU members of the European Patent Convention to take steps to modify that Convention to remove computer programs from the list of unpatentable inventions. The message is clear: the European Union is committed to amending EU intellectual property laws to strengthen the international competitiveness of European industry. The United States cannot afford to do less to promote its international competitiveness in the database arena.

The AIPLA is not alone in its conclusion that there is a need for protection of databases. The Clinton Administration

"... supports legal protection against commercial misappropriation of collections of information... there should be effective legal remedies against 'free riders' who take databases gathered by others at considerable expense and reintroduce them into commerce as their own." (August 4, 1998 letter to Senator Patrick Leahy from Department of Commerce General Counsel Andrew Pincus)

In her testimony before this Subcommittee in October 1997, Register of Copyrights Marybeth Peters stated that the general level of protection previously available for databases under the "sweat of the brow" copyright approach should be restored and that the Copyright Office agrees that legislation to address the shortcomings in current law is desirable.

THE PROTECTION PROVIDED BY H.R. 354

The provisions of H.R. 354 reflect the continuing efforts by you, Mr. Chairman, to craft a balanced solution to fill the void which currently exists in the protection available for databases. H.R. 2652, as originally introduced in the 105th Congress, first set forth the misappropriation approach for the protection of databases. This approach, with clarifications, is continued in section 1402 of H.R. 354. It establishes civil and criminal remedies against any person who extracts, or uses in commerce, all or a substantial part of a collection of information gathered, organized or maintained by another person, so as to harm that other person's market for a product or service using that collection. Most of the improvements reflected in H.R. 354 over H.R. 2652 as introduced were already incorporated into H.R. 2652 in the version that passed the House last year.

Sections 1403 and 1404 set forth a number of permitted acts, limitations and exceptions to strike a balance with the prohibition set forth in 1402. Thus, section 1403—

- provides that use or extraction of information for non-profit educational, scientific or research purposes that does not harm the actual market for the database creator's products is permitted.
- provides a "fair use-type" exemption from section 1402's reach for an "individual act" of use or extraction for illustration, explanation, example, comment, criticism, teaching, research or analysis, if "reasonable under the circumstances," along with four factors to aid in determining reasonableness. The exemption would not apply if the extracted information is offered for sale and is likely to be a substitute for the creator's database.
- clarifies that the prohibition of section 1402 does not reach individual items of information—facts—unless part of a scheme to circumvent the prohibition.
- clarifies that anyone is free to collect the same facts and information from different sources.
- permits the use of a database within an organization to verify the accuracy of information independently compiled by another.
- permits use of information for news reporting, unless the information is time sensitive, was gathered by a news entity, and is used for direct competition.

Section 1404 excludes from the prohibition of section 1402—

- collections of information created by or for a government entity, with certain exceptions,
- computer programs, and
- collections of information used to address, route, or transmit digital online communications to facilitate the proper functioning of the Internet.

The relationship of H.R. 354 to other laws is set forth in section 1405. In addition to expressly clarifying that nothing in H.R. 354 affects the rights, obligations, limitations, or remedies with respect to federal IP and antitrust laws as well as trade secret, privacy and contract law, section 1405 expressly pre-empts state rights equivalent to the rights contained in section 1402.

Section 1406 establishes civil remedies for a violation of section 1402, including temporary and permanent injunctions, monetary relief, and the destruction of copies of information extracted or used in such a violation. The bill provides special protections for non-profit, educational, scientific, and research institutions by providing for the award of costs and attorneys fees for actions brought against them in bad faith and the reduction or elimination of any monetary relief against the employees of such organizations who, with reasonable grounds, believed that their conduct did not violate section 1402. Section 1407 sets out the criminal sanctions for a willful violation of section 1402, but exempts their application to employees of nonprofits acting within the scope of their employment.

Finally, section 1408 sets forth limitations on the commencement of both civil and criminal actions, including a limitation on bringing any action for the extraction or use of a collection of information that occurs more than 15 years after it was first offered for sale or used in commerce.

SUGGESTIONS FOR CLARIFICATIONS

AIPLA believes that the prohibition against the misappropriation of collections of information in section 1402 is well crafted. At the same time, we recognize that the incentives provided by this protection must be balanced to ensure that the continued availability of information for educational and research needs is not unduly inhibited. We compliment you, Mr. Chairman, for the careful balancing act evidenced in H.R. 354. We offer only a few comments for clarifications in the report.

As a general matter, we note that the exceptions provided in section 1403, to the acts prohibited by section 1402, do not require that the copy of the collection of information from which an extraction is made and used be a lawfully-acquired copy. In this regard, we note that the exception contained in section 6 of H.R. 3531 required that the person extracting from a database be a lawful user of that database.

Turning now to the specific exceptions, we recognize that the Administration and others have argued that the bill should provide exceptions analogous to "fair use" principles of copyright law, in particular to minimize any affects on non-commercial research. While we do not oppose such exceptions as a matter of principle, we would urge that any such exceptions be carefully crafted so as to not unduly dilute the incentives provided in section 1402 for the creation of databases.

In this regard, we recognize that the four factors listed in section 1403(a)(2)(A) to assist in determining whether a use or extraction of data is "reasonable under the circumstances" must necessarily be flexible. Too much flexibility, however, will result in uncertainty as to where the line is drawn for both database creators and users. For example, as regards the third factor, the inclusion of some illustrative examples or guidelines in the report regarding what degree of "difference" would (and would not) lead to a determination that an extraction was reasonable would be most helpful.

Similarly, in the fourth factor, further clarification of the purpose of the term "primarily" would be desirable. Would extraction from a database by a person in a business different from that for which the database was *primarily* developed, but which business was nonetheless a very significant user of the database, be exonerated by this factor?

In the last paragraph of section 1403(a)(2)(A), we would assume that the phrase "offered . . . otherwise in commerce" would not literally require an extracted portion to be offered in commerce. We would hope that the paragraph would deny the exception, for example, to a for-profit entity that extracted portions of a database for use internally as a substitute for purchasing copies. Clarification would be helpful.

Finally, a word about the term of protection accorded to a collection of information. Section 1408(c) provides that nothing shall prevent the use or extraction of information from a collection of information after 15 years from the date on which

it was first offered for sale. The obvious question, in this era of electronic databases which are constantly updated with new information which would qualify for protection, is how will one determine what is 15 years old and therefore freely useable? We understand that there was some discussion last year of creating a deposit system within the Copyright Office. We believe that such a solution could be the answer, provided that a practical system could be developed that would not be unduly expensive or burdensome for database creators or users.

CONCLUSION

Mr. Chairman, the evolution of the legislation to fill the void left by the *Feist* decision has taken us ever closer to our goal. With H.R. 354, the AIPLA believes that we are indeed very near the balanced approach needed to reestablish the incentives for continued American leadership in the field while addressing the legitimate needs of users. We are ready to work with you and with other interested individuals and organizations to resolve any remaining issues to facilitate the prompt enactment of this important and needed legislation.

Mr. COBLE. Thank you, Mr. Kirk.
Mr. Phelps.

STATEMENT OF CHARLES PHELPS, PROVOST, UNIVERSITY OF ROCHESTER

Mr. PHELPS. Thank you, Mr. Chairman, members of the subcommittee. I appreciate this opportunity to present the views of three major higher education associations on H.R. 354.

First, I want to thank you for your responsiveness to our previous concerns. You've made a number of changes in your bills over the last year and H.R. 354 contains further improvements in accepted uses for university research and educational purposes. We acknowledge and thank you for your responsiveness. Therefore, at the risk of seeming ungrateful, I must state that we believe that more work needs to be and yet can be done expeditiously.

A single core principle directs our thinking on database use and protection: the preservation of access to facts as a part of the public domain for use by all. Our longstanding national information policy has fostered the unfettered flow of information for research and education and has served this Nation well.

As the Supreme Court said in *Feist*, "all facts—scientific, historical, biographical, and news of the day . . . are part of the public domain available to every person." "The raw facts and the compilation may be copied at will. This result is neither unfair nor unfortunate. It is the means by which copyright advances the progress of science and art."

The U.S. leads the world in science and technology. The Nation benefits economically, militarily and in the quality of life and the products of economic research and advanced education.

Moreover, the higher education enterprise itself is one of the most successful sectors of the economy. The quality of U.S. higher education has attracted far more students from abroad than has that of any other country in the world. Perhaps only professional basketball has succeeded more in international competition than higher education. We should not put that success at risk.

Given the importance of our national research and educational enterprise and the role that our enlightened national information policy plays in sustaining the creativity and productivity of this enterprise we believe Congress should always move to protect access to information and to preserve the ability of science, scholars and

educators to use information to advance their research and education missions. If in doubt, you should err on the side of access.

To preserve access to information we believe that the database protection legislation should meet three critical standards. First, the protection should only target specifically identified wrongful conduct rather than establishing a broad prohibition against use. Second, protection should apply only to clearly defined classes of materials, to compilations and not the facts they comprise. And third, the protection available for compilations in this domain should not exceed that now provided for original creative works of authorship through copyright law.

We believe that H.R. 354 does not yet meet these standards. Our specific concerns are the following: first, the prohibition on extraction or use in commerce is unreasonably broad and grants substantial control over information itself long after it is extracted from the protected collection. The term "use" has no meaningful bound and could cover virtually any academic conduct involving the information.

At each step of the way in using information a professor or student will be required to know the origins of and the investment in the information, whether it represents a quantitatively or qualitatively substantial part of the collection, whether the specific use is licensed and whether the use harms a market. While there might be enough attorneys to guide us through this legal maze as we carry out our academic work, we could not afford them.

I have seen Ms. Winokur's written statement on behalf of the Coalition Against Database Piracy and agree with her that the real threat to the database industry are unscrupulous competitors and cyber-pranksters, but I do not believe you need H.R. 354 in its current form to address those threats. I believe you need only a focused bill perhaps making extracted material available to others in a manner that is likely to serve as a market substitute for the original collection.

Second, the definition of "protected collection" is so broad that it literally covers almost any academic publication, including and article, a textbook, or a report in a scientific study with its accompanying data. It should be narrowed in the text of the bill. I understand from the written statements that the Copyright Office agrees with this goal. We do disagree with the Office's belief that the language in the bill now accomplishes that and my written testimony does provide alternative approaches.

Third, liability under H.R. 354 should not be triggered where a taking is either quantitatively or qualitatively insubstantial. The essence of compilation is quantity. If you protect the quantitatively insubstantial you protect the facts themselves. A single fact or several are just facts, no matter how important. In order for liability to attach, the taking must be quantitatively substantial. Further, the material that is taken must itself be the result of substantial effort and investment that the bill protects.

Fourth, the bill's concept of market harm far exceeds the traditional bounds of misappropriation and unfair competition law and provides database proprietors with the ability to define markets and thus liability. Harm should focus on the dissemination of a

market substitute. If extraction is prohibited it should be limited to extraction that causes substantial harm to the primary market.

Fifth, the bill's exceptions for educational activities and other reasonable uses contain conditions that substantially restrict their usefulness. For example, the non-profit academic exception is conditioned on the absence of "direct harm to the actual market." That sounds fair until you realize that direct harm means non-payment of the fee and "from actual market" can be anything that the proprietor wants. That is far from the result the Copyright Office says is appropriate, to quote: "Where such use is a serious and immediate threat to the producer's investment." And the user is a member of the market for which the database is produced.

Sixth, the bill fails to protect the public against unreasonable market power from compilations not readily available from competitive sources and fails to secure access to older, no longer protected versions of protected compilations. This could lead to a death trap of perpetual protection. Again, I understand that the Copyright Office agrees that further work on these issues may be needed.

The bill also does not protect for institutions that act as on line service providers from unreasonable liability for the conduct of third parties. And all universities and colleges serve this function for their community.

My written statement amplifies these concerns and proposes specific solutions. When you consider the threat that overly broad protection poses to the foundation of the scientific, academic and research communities we hope you will give our proposals full consideration. We'd be most happy to work with you to clarify the language.

Thank you.

[The complete statement of Mr. Phelps follows.]

PREPARED STATEMENT OF CHARLES PHELPS, PROVOST, UNIVERSITY OF ROCHESTER

I am Charles E. Phelps, Provost of the University of Rochester. I appreciate this opportunity to testify before the Subcommittee on H.R. 354, "The Collections of Information Antipiracy Act." My testimony is presented on behalf of the Association of American Universities, the American Council on Education, and the National Association of State Universities and Land-Grant Colleges, which together represent over 1,500 colleges and universities. These Associations understand the need to protect databases, and they support legislation targeted to address unfair competition and database piracy. Indeed, universities and colleges often are creators of collections of information.

We very much appreciate the revisions to H.R. 2652 contained in H.R. 354 that seek to address concerns raised about acceptable uses of databases and the potential for perpetual protection of databases. We are concerned, however, that the protections provided to collections of information in H.R. 354 remain overly broad in a number of key respects that will impede the core academic activities of research and teaching. We are prepared to work with the Subcommittee and with other interested parties to develop a consensus approach that can be supported by all.

We approach the issue of database protection with a single core principle: Because data and information are the cornerstone of scientific and scholarly research, teaching and learning, we believe it is imperative to preserve the fundamental premise of this nation's information policy that no one may own facts or information, or may prevent the full, unfettered use of facts and information. As the Supreme Court said in *Feist*, "all facts—scientific, historical, biographical, and news of the day . . . are part of the public domain available to every person." *Feist Pubs., Inc. v. Rural Telephone Service Co.*, 499 U.S. 340, 348 (1991), quoting *Miller v. Universal City Studios, Inc.*, 650 F.2d 1365, 1368 (5th Cir. 1981). "[T]he raw facts [in a compilation] may be copied at will. This result is neither unfair nor unfortunate. It is the means

by which copyright advances the progress of science and art." 499 U.S. 340, 350 (1991).

This policy has served the country well. The United States stands at the forefront of learning, science and technological achievement, and the nation has benefited richly from this leadership in international economic competitiveness, lifesaving advances in medicine and health care, technological superiority in defense, and an enriched quality of life for our citizens. We believe that the enlightened information policies of this nation have played a significant role in sustaining the creativity and productivity of the research and education programs that led to these benefits. Congress should avoid any legislation that could threaten this fundamental principle that facts and information remain in the public domain. Educators and researchers should not be required to have an attorney on call at all times. Wherever decisions are to be made about the proper scope of protection for compilations of information, Congress should err on the side of caution and access to information.

Based on this principle, we can identify several critical standards that any legislation to protect compilations of information should meet: First, protection should be targeted to deal with specifically identified wrongful conduct. Second, protection should be addressed to a clearly defined class of materials and should be limited to compilations as *compilations*, not the facts or the information *per se*. Third, the protection available for compilations of information should be no broader, or stronger, than the protection available for original, creative works of authorship.

Regrettably, H.R. 354 fails to meet these standards. We do not lightly conclude that, as written, H.R. 354 threatens to chill research and education and to place information in the control of a limited number of commercial interests. But we do conclude that we cannot support H.R. 354 in its current form.

Our three associations and their member colleges and universities have the following specific concerns.

- H.R. 354's prohibition on "extraction or use in commerce" is unreasonably broad and grants substantial control over information itself, long after it is extracted from a protected collection. The bill should focus its prohibition on one who makes extracted material available to others in a manner that is likely to serve as a market substitute for the original collection. Certain extraction may also be prohibited.
- The definition of a protected collection is so broad that it literally covers almost any publication, including an article, a textbook, or the report of a scientific study (with accompanying data). It should be narrowed in the text of the bill.
- Liability under H.R. 354 should not be triggered where a taking is quantitatively or qualitatively insubstantial or where the portion that is taken was not the subject of substantial investment.
- The bill's concept of "market harm" far exceeds the traditional bounds of misappropriation and unfair competition law and provides database proprietors with the ability to create markets, and thus, liability.
- The exception for non-profit educational activities contains a broad, vague condition that vitiates its protection.
- The exception for other reasonable uses is insufficiently flexible, and contains conditions that greatly limit its benefit.
- The bill fails to protect the public against unreasonable market power from compilations that are not readily available from competitive sources.
- The bill should secure access to older versions of protected compilations, in order to prevent perpetual protection.
- The bill does not protect institutions that act as online service providers from unreasonable liability.
- The bill lacks clear exemptions from liability for non-profit teaching activities, akin to the exemptions in Copyright Act section 110.

In the following statement, the Higher Education Associations provide an overview of the basic academic activities that are threatened by H.R. 354. We then amplify the three standards we have identified. Finally, we discuss our specific concerns with the bill and offer suggestions for improving the legislation. It is important to stress that these suggestions are not presented as a menu from which a few items may be chosen. We believe that each of the fundamental issues discussed below should be addressed in order to preserve the flow of information and the progress of science and learning.

I. THE ACADEMIC ENVIRONMENT AND ACTIVITIES THREATENED BY H.R. 354

The research and teaching missions of colleges and universities are fundamentally tied to information and the translation of information into knowledge: through the production, analysis, verification, interpretation, and dissemination of information, scientists and scholars expand the frontiers of knowledge and transmit that ever-expanding knowledge to colleagues and to students. The results of research are publicly disseminated through articles, books, workshops, conferences, and increasingly through digital networks as well. Research results so disseminated are used by other scientists and scholars—to build on, to critique, to re-examine and re-interpret. Through the give and take over what may be initially conflicting data or interpretations of data, new phenomena are understood and verified, and knowledge is advanced.

The process of translating data into knowledge requires the open exchange of information among allied scholars and critics alike. Increasingly, research is conducted in teams, often from several institutions. Data are drawn from multiple sources, recombined and merged with new data to produce data sets that may lead to new and unanticipated findings. Data sets vary from the results of a single experiment, captured in a table in a single journal article, to the vast databases of information compiled from meteorological remote sensing instruments, geographic information systems, particle accelerators, and systematic aggregations of research results to produce databases of genomic, chemical, and medical information, and much more.

Databases supporting research and scholarship are not limited to the sciences. Databases supporting work in the humanities and social sciences are proving increasingly essential to advancing knowledge in these disciplines; specialized dictionaries, annotated bibliographies of worldwide research resources, census information, and compilations of text citations are just a few of the systematic compilations of information critical to humanistic and social science research.

In the academic community, these databases are dynamic instruments: they are not only sources of information, but they themselves—or components of them—become ingredients in new products, both through the combination of multiple contemporaneous data sets to produce qualitatively new products, and through the re-analysis of prior data from new perspectives provided by new findings or new analytic tools. A scientist may apply a formula developed from his or her research to a different set of data, yielding a different interpretation of that data; multidisciplinary researchers may combine components of databases from physical, biological, chemical, and meteorological data to understand the dynamics of ecological systems; social scientists may combine elements of databases of demographic, economic, legal, and political information in comparative analyses of national or regional populations worldwide.

Some of the best education is learning by doing and by discovering, and students are increasingly using databases to draw their own conclusions, duplicating the research process to learn through discovery under the guidance of faculty.

For all of these research and educational activities, faculty and students must be able to have open and easy access to compilations of data of all sizes, from single research results to large databases, and they must be able to work with these compilations—extracting, combining, and aggregating sets of data—to advance the frontiers of knowledge and educate students about those advances.

These academic uses of information do not require that all information be free; indeed, universities now pay substantial sums for commercial databases. But these uses do require sufficiently flexible conditions of use, conditions that can be stultified by a proprietary protection scheme that makes use, reuse, and recombination difficult and militates against the ability to exchange information with colleagues and students.

II. THE STANDARDS AGAINST WHICH LEGISLATION TO PROTECT COMPILATIONS SHOULD BE JUDGED

In general, the Associations share the view of the Administration, as expressed last year by the Department of Commerce, that “any [law to protect compilations and databases] should be predictable, simple, minimal, transparent, and based on rough consensus.” Letter from Andrew J. Pincus, General Counsel, Department of Commerce, to Senator Patrick J. Leahy, August 4, 1998 (the “Pincus Letter”). In particular, we emphasize three important criteria.

First, the protection should be targeted to deal with specifically identified wrongful conduct. We respectfully believe that it is not good policy to adopt a broad, catch-all prohibition, which is subject to potentially broad but ambiguous exceptions that are subject to judicial construction and application. Such an approach will ensure

that any activity that arguably falls within the scope of proscribed conduct will need to be evaluated by attorneys. Researchers, educators and scientists perform functions that serve vital public purposes. They should not be required to have an attorney looking over their shoulder at all times. I can assure you that, while this might be good for our attorneys, it will not be good for scholarship or for science.

Second, protection should be addressed to a clearly defined class of materials. If the goal is to protect incentives for the creation of large databases that require extensive effort to develop and organize, the legislation should be crafted to apply to just such works. The risk of spill-over into other types of works should be minimized. Further, it is essential that the legislation protect the compilations as *compilations*, not the facts or the information contained in the compilations *per se*. While this is a difficult line to draw, it is critical that it be drawn properly.

Third, in no respect should the protection available for compilations of information be broader, or stronger, than the protection available for original, creative works of authorship. Similarly, the exceptions and privileges applicable to the new legislation should be no narrower in any respect than the exceptions and privileges applicable to copyrighted works. Given the importance of the free flow of information to learning and science, there can be no justification for granting broader protection for compilations than exists for creative, copyrighted works.

III. FUNDAMENTAL CONCERNS WITH H.R. 354

A. The Legislation Should Not Broadly Target the "Use" of Information.

The conduct proscribed by the H.R. 354's operative prohibition, "extraction or use in commerce" is unreasonably broad and creates a danger that database proprietors will be permitted to exercise substantial control over information itself, long after it is extracted from their protected collection. By including "use" as a prohibited act, H.R. 354 violates our first and third standards.

The term "use" has no meaningful bound. Copyright law does not even prohibit "use;" rather it prohibits five defined acts (reproduction, public distribution, creation of derivative works, public performance and public display). 17 U.S.C. § 106. "Use" conceivably covers may acts fully permitted by copyright law (including reading, research, lecturing about, discussing, using to support debate, etc.). Indeed, any activity involving information from a collection is a form of "use."¹ At each step of the way, a professor or student would be required to know, on pain of liability (i) whether the information originated in a protected collection of information, (ii) whether the collection was gathered, organized, or maintained by another person through the investment of substantial monetary or other resources, (iii) whether the information used represents a quantitatively or qualitatively substantial part of collection from which the information originated, (iv) whether the specific use is the subject of a license to use the information, (v) the actual and potential markets for the collection of information, (vi) whether the specific use will cause harm to one of the actual or potential markets, and (vii) whether the conduct falls within one of the several exceptions to the rights granted by the legislation. Many of these questions will require knowledge of unknowable facts. Many will require knowledge and understanding of ever-developing judicial interpretation. This simply makes no sense. It is a boon to lawyers. It will be a bane to scholarship, science and education.

Proposed Alternative. We submit that database legislation should be targeted at specific wrongful conduct. We understand and accept the need to limit the ability of competitors or others who would offer a true substitute collection from free riding on the work of the originator. This purpose may be served by creating a cause of action against one who extracts substantial portions of a collection and makes the extracted material available to others in a manner that is likely to serve as a market substitute for the original collection.² This is comparable to the approach recommended last year by the Administration—"there should be effective legal remedies against 'free-riders' who take databases gathered by others at considerable expenses and reintroduce them into commerce as their own." Pincus Letter at 1. It also is comparable to the approach taken by the alternative "Fair Database Competition" bill placed into the Congressional Record for discussion purposes by Sen-

¹The term "use" would also appear to cover activities, such as the internal creation of derivative compilations, that might be within the scope of copyright rights when applied to original works of authorship, but which should not be within the protection afforded to collections of information. Nor is "use in commerce" likely to be a meaningful limitation, given the breadth of the term "commerce." Any entity whose use of information from a collection of information involves an instrumentality of interstate or foreign commerce (e.g., telephone, mails, or the Internet) would be acting "in commerce."

²We discuss the types of "markets" that should be considered in Part III.D., below.

ator Hatch on January 19, 1999.³ The central focus of any legislation should be to prevent free-riding competition in the marketplace.

We also understand that there is a desire simply to prohibit unauthorized extraction of information from protected collections. The concern, as we understand it, is that a user should not be allowed to avoid paying for access to a collection that has been developed at great cost and effort by the proprietor. We submit that this concern is likely to be addressed adequately by methods of protection in common use today, including technical restrictions on access and contract. Further, we are concerned that a prohibition directed solely at extraction moves dangerously close to the creation of an intellectual property right in information *qua* information. As the Supreme Court said in *Feist*, facts are in the public domain; they "may be copied at will;" *it is the means by which the progress of science and art are advanced. Feist*, 499 U.S. at 348, 350 (emphasis added).

Notwithstanding this compelling authority, in the interest of compromise, we are willing to work with the Subcommittee to develop an appropriately tailored prohibition on unauthorized extraction when that extraction will cause a substantial injury to the incentive necessary to undertake the investment and effort of creation. We believe the strongest argument for such a prohibition lies within the primary market for the collection. If the primary market is destroyed, there will be little incentive for creation. See *Restatement (Third) of Unfair Competition*, §38, comment c. ("Appeals to the misappropriation doctrine are almost always rejected when the appropriation does not intrude upon the plaintiff's primary market.") It is not clear that the same is true of subsidiary markets. See point III.D., below. Again, we stress that if Congress is to err in setting the scope of this new legislation, it should err on the side of caution and the public domain.

Further, the extraction should not be merely an extraction of some information from the collection, it should be an extraction that captures the sweat and effort of the originator. We discuss this substantiality standard in part III.C., below.

We do not propose that the analysis end with the definition of the scope of prohibited conduct. Just as the Copyright Act contains exceptions that, in appropriate circumstances, permit conduct that falls within one of the exclusive rights, so too should appropriate exceptions be included in legislation to protect collections of information. Thus, there will be highly beneficial non-profit activities and transformative activities that deserve encouragement and protection. We discuss these exceptions below. However, it is critical that the bill start from a clearer, and narrower concept of prohibited conduct.

B. The Legislation Should Clearly Define Protected "Collections."

The bill protects "collections of information," which are broadly defined as "information that has been collected and organized for the purpose of bringing discrete items of information together in one place or through one source so that users may access them." This definition is so broad that it literally covers almost any publication, including an article, a textbook, the report of a scientific study (with accompanying data), or even, for those of you who are lawyers, a casebook. Each of the foregoing collect information, arguably discrete items of information, for the purpose of making the information accessible. Thus, this definition is inconsistent with our second standard—clarity of subject matter.

Last year's House Report on identical language in H.R. 2652 made clear that the bill is not intended to add to the copyright protection available for articles, texts and reports. The Supreme Court recognized almost 120 years ago in *Baker v. Selden* that

The very object of publishing a book on science or the useful arts is to communicate to the world the useful knowledge which it contains. But this object would be frustrated if the knowledge could not be used without incurring the guilt of piracy of the book.

101 U.S. 99, 103 (1880). It reiterated this identical statement in *Feist*, 499 U.S. at 350. Rather, it is our understanding that the bill is intended to fill a hole in the protection available to large collections that require great effort undertaken for the purpose of gathering and presenting the collection as a collection. Unfortunately, the text of the bill fails to achieve the desired goal. We are not comfortable leaving such an important issue to legislative history.

Proposed Alternative. The definition of protected collections should be modified to make clear that protected collections encompass only compilations that comprise a large number of discrete facts or other items of information collected from numerous

³ We understand that there are objections that the competition bill's scope is too narrow, and are prepared to work with the Subcommittee to satisfy its concerns.

sources with the expenditure of substantial monetary or other resources. The term "database" used in the Fair Database Competition Act and Senator Hatch's Discussion Draft more accurately captures the type of protected work than the term "collection of information" used in H.R. 354. Further, the definition should expressly exclude textbooks, articles, biographies, histories, other works of narrative prose, specifications, and other works that include items of information "combined and ordered in a logical progression or other meaningful way in order to tell a story, communicate a message, represent something or achieve a result," as set forth in the House Report on H.R. 2652.

C. To Be Actionable, an Extraction Should Take Material that Is Quantitatively and Qualitatively Substantial and Should Appropriate the Effort and Investment of the Creator of the Original Collection.

The quantum of misappropriation that triggers liability under H.R. 354 is unreasonably broad in two key respects. First, the bill improperly prohibits a taking even if the taking is quantitatively or qualitatively insubstantial. Second, the bill may be read to prohibit a taking even if the portion taken was not the subject of substantial investment (as long as other material in the collection was the subject of such investment). Only a taking that is both quantitatively and qualitatively substantial, and that appropriates content embodying substantial investment by the creator, should fall within the scope of protection. Any other rule violates the core principle that should govern H.R. 354—it grants to the originator of a collection the ability to claim a monopoly on facts themselves.

Section 1402 prohibits an extraction or use of a "substantial part" of a protected collection. Pursuant to section 1402, the substantiality standard is satisfied if the part is *either* quantitatively or qualitatively substantial. This standard grants inappropriately broad protection.

There is no justification for protecting a part of a collection that is not quantitatively substantial. The essence of "collection" that is protected by H.R. 354 is the substantial investment necessary to gather *large quantities* of data or other information from disparate sources. It simply makes no sense to subject a user to potential liability for removing small quantities of material, regardless of how important "qualitatively" they may be. Indeed, such small quantities are precisely the individual items of data or information that should not be the subject of protection. *A single fact, two facts or three facts remain simply facts, regardless of how "qualitatively" important they are.*⁴

Likewise, there is no justification for prohibiting the appropriation of even a large quantity of material that is qualitatively insubstantial. The oft-stated rule of *de minimis non curat lex* is as simple as it is wise. The law should not concern itself with trifles. If the extracted material is qualitatively unimportant, there should be no cause of action.

The bill also lacks appears to lack a requirement that there be a nexus between the protected investment in the collection and the taking. It is the investment that should be protected, not the facts themselves. A cause of action should exist only if the defendant has taken content embodying a substantial amount of protected effort. This is best illustrated by example. Consider a large database of information, half of which was taken by the compiler from a pre-existing, public domain database that required very little effort by the creator of the large database. A user whose only extraction is of the pre-existing material should not be subject to liability even if the extracted material qualifies as qualitative and quantitatively "substantial." Granting protection to that which was not the subject of the creator's substantial investment does not serve the purpose this bill seeks to serve.

Moreover, extending protection to such material would extend protection far beyond the analogous protection extended by copyright law. Copyright law protects only the creator's own expressive contribution. Thus, for example, a copyright in a derivative work does not extend added protection to the underlying material on

⁴ Subsection 1403(b) also reflects H.R. 354's problems in this regard. Although this subsection appears intended to foster the principle that individual facts are not protected, it may actually have the opposite effect. The first sentence states that the bill does not "prevent the extraction or use of an individual item of information or other insubstantial part." The second sentence provides that an individual item of information shall not, itself, be considered substantial. Of course, stating that insubstantial parts of a collection are not prohibited adds nothing to section 1402 which purports to prohibit only the taking of a "substantial part" (however broadly that is defined). We are concerned that by explicitly stating that a single item of information may never be substantial, subsection 1403(b) implies that two or three items of information may be substantial. A better approach would be to tighten the substantiality standard of section 1402 and make clear that the extraction of a *relatively small* portion of the collection would not be deemed substantial.

which the derivative work was based. 17 U.S.C. § 103(b). If the underlying material is in the public domain, it is fully lawful to extract the underlying material from the derivative work. Similarly, the protection for a work (including a work that is not derivative work) does not extend to material not created by the author. *See, e.g., Computer Assocs. Intern., Inc. v. Altai, Inc.*, 982 F.2d 693, 710 (2d Cir. 1992) (excluding from copyright protection elements of a work taken from the public domain, each of which "is free for the taking and cannot be appropriated by a single author even though it is included in a copyrighted work"); *Gates Rubber Co. v. Bando Chem. Indus., Inc.*, 9 F.3d 823, 837 (10th Cir. 1993) ("a court must filter out [from copyright infringement analysis] all unoriginal items of a [computer] program, including those elements found in the public domain.").

Proposed Alternative. Only a taking that is both quantitatively and qualitatively substantial should be prohibited. Further, a cause of action should exist only if the defendant has taken content embodying a substantial amount of protected effort.

D. The Market Harm Standard Is Undefined and Far Exceeds the Injury Cognizable in Unfair Competition Law.

It is our understanding that the "market harm" standard is intended to be very broad, including as market harm even non-payment of a license fee. Such a standard essentially places the definition of "actual markets" within the control of the proprietor and means that each activity involving information taken from a collection may be unlawful. This standard is inconsistent with long-standing principles of unfair competition and misappropriation law. Instead, it approaches the very concepts of intellectual property law from which this legislation is intended to depart.

If "market harm" means lost license fees, the proprietor merely needs to identify all possible uses and structure a set of licenses to capture different fees for different uses. Even if the proprietor does not at first have such a licensing structure, once a use is discovered or otherwise identified, the proprietor can easily establish a new form of license. At that time, the market becomes an "actual market."

The bill's inclusion of "potential markets" merely exacerbates the problem. The proprietor need not even create the license structure, it need only demonstrate that it might do so.

The concepts of "actual" and "potential" markets are both unacceptably broad and extend far beyond traditional unfair competition and misappropriation law. As the Third Restatement of Unfair Competition states:

the recognition of exclusive rights in intangible trade values can impede access to valuable information and restrain competition. . . . The recognition of exclusive rights may thus deny to the public the full benefits of valuable ideas and innovations by limiting their distribution and exploitation. *In addition, the principle of unjust enrichment does not demand restitution for every gain derived from the efforts of others.* . . . The better approach, and the one most likely to achieve an appropriate balance between the competing interests [between protection and access], does not recognize a residual common law tort of misappropriation."

Restatement (Third) of Unfair Competition, § 38, comment b at 409, 411 (emphasis added). Accordingly, courts

"have recognized that broad application of the unjust enrichment rationale in a competitive marketplace would unreasonably restrain competition and *undermine the public interest in access to valuable information.* . . . In most of the small number of cases in which the misappropriation doctrine has been determinative, the defendant's appropriation, like that in *[AP v. INS]*, resulted in direct competition in the plaintiff's primary market. . . . Appeals to the misappropriation doctrine are almost always rejected when the appropriation does not intrude upon the plaintiff's primary market."

Id. at 412-13. In short, traditional misappropriation law remedies harm to plaintiff's "primary market," not "actual" or "potential" markets.

The bill's use of broad market harm concepts departs radically from the misappropriation doctrines that the bill is supposed to adopt. Rather, the use of such broad terms effectively creates a new species of quasi-intellectual property law, one that threatens to access to information.

Proposed Alternative. Concerns over the breadth of market definition can be significantly ameliorated if the actionable conduct proscribed by the bill is limited as described in Part III.A. The bill should prohibit the further dissemination of substantial quantities of extracted material in a manner that is likely to serve as a market substitute for the original in plaintiff's primary market. Further, if extraction of substantial quantities of material is itself to be prohibited, it should be lim-

ited to extractions that cause substantial harm to plaintiff's primary market. Substantial harm should not simply mean lost licensing fees.

E. The Exception for Non-Profit Educational Activities Contains a Broad, Vague Condition that Vitiates its Protection.

Subsection 1403(a) includes an exception for non-profit educational, scientific or research uses that addresses some of the concerns of the education community. However, the exception is limited to those uses that do "not harm directly the actual market for the product or service." Unfortunately, as discussed in Part III.D., above, this limitation may be so broad that it destroys the exception of much of its value.

As discussed in Part III.D., the term "actual market" is infinitely flexible, and can mean anything the proprietor wants it to mean. All the proprietor must do is declare the existence of a license to cover a particular use or type of use, and it has created an "actual market." Further, there is no explanation of how "direct harm" differs from any other kind of harm. The House Report on H.R. 2652 stated that even loss of license fees was intended to constitute a "direct" harm.

Further, because the provision is crafted as an exception, the burden of proving that conduct qualifies for protection likely falls upon the educational institution. The burden should fall on plaintiff to demonstrate that wrongful conduct has occurred.

In other words, subsection 1403(a) provides a database proprietor with sufficient ammunition to eliminate the exception entirely, and foreclose the very educational, scientific and research activities that should be preserved. At the very least, the application of the exception to any case of nonprofit use can be subjected to costly litigation, which itself threatens to chill these important activities.

Proposed Alternative. To ensure that nonprofit educational, scientific and research activities receive appropriate protection, two changes should be made to the bill. First, the scope of protection should be narrowed, as discussed in Parts III.A. through III.D., above. This will ensure that educational, scientific and research activities are only subject to liability when they are the primary market for the original collection of information and the activity causes substantial harm to that market. To make this absolutely clear, we would support language such as "under no circumstances shall non-profit educational, scientific or research activity that would otherwise violate this chapter constitute a violation of this chapter if plaintiff fails to bear the burden of proving that the activity is causing substantial harm to the primary market for its protected collection of information." Second, even in these circumstances, courts should have the discretion, through consideration of a flexible "reasonable use" exception, to consider the facts and circumstances of the particular case. See Part III.F., below.

F. The Exception for Other Reasonable Uses Is Insufficiently Flexible, and Contains Conditions that Greatly Limit its Benefit.

The exception in paragraph 1403(a)(2), for "other reasonable uses," represents an improvement over H.R. 2652. However, it is constrained by absolute conditions that restrict its usefulness and that limit its application beyond the considerations applied in traditional copyright fair use analysis. Thus, it does not serve its intended purpose and results in protection for compilations that is greater than that provided by copyright.

Unlike the fair use exception in copyright law, which provides courts flexibility to consider all relevant factors for virtually any kind of use, the "reasonable uses" provision contains absolute conditions that restrict that flexibility. A more flexible approach, coupled with a narrowing of section 1402, is necessary.

Individual Acts. The most notable limitation in paragraph 1403(a)(2) is the limitation to "an individual act of use or extraction of information." An "individual act" is defined as an act that "is not part of a pattern, system or repeated practice by the same party, related parties, or parties acting in concert with respect to the same collection of information or a series of related collections of information." Of course, by its nature, scholarship, teaching, and research require repeated acts and patterns of acts. Thus, many of the acts that should be covered by a reasonable use exception fall outside of the scope of the exception as written.

There is no justification for limiting this exception to a single act of extraction or use. The extraction of a quantum of information has the same impact regardless of whether it occurs in a single act, or as part of several acts. Courts have the flexibility to aggregate multiple acts that are part of a pattern or repeated practice by

related parties in their consideration of the exception. That should be sufficient to ensure that the exception is not abused.⁵

Amount of Extracted Material. The exception is not available if the amount extracted is more than is "appropriate and customary" for the purpose. Although this is a factor considered in copyright fair use analysis, it is not an absolute condition for application of the fair use doctrine. It is easy to envision a situation in which more than "appropriate and customary" is extracted, but the excess extraction does not have a significant effect on the market, or may have been extracted by accident or on the basis of a misapprehension of what was needed. Alternatively, the particular purpose may not have a "customary amount." There is no justification for courts to be required to bar use of the exception if the amount extracted exceeds an amount that is "appropriate and customary." As in copyright fair use, the amount of the taking should be a factor that is considered like all other relevant factors.

Market Substitution. The exception may not be applied if the extracted material is offered in commerce and is likely to serve as a market substitute for the collection. Such activity is not an automatic, absolute bar to a finding of copyright fair use. It should not be an automatic, absolute bar to the reasonable use exception here.

Every day, material is extracted from collections and used in research and other academic work. The extracted material is often transformed by the extensive effort and energy of the original extractor, who develops, selects, and organizes the material to make it useful to others in the field. The resulting work could be a breakthrough in science, social science, philosophy, economics, medicine or any one of scores of other fields. It may not even take the form of a compilation or database. The resulting work may have far greater value to others in the field than the original, undigested database. As a result of the work, others may not need to duplicate the extractor's efforts, and the resulting work may "substitute" for the broad, undigested database. This is precisely the type of work that should be encouraged, not sanctioned.

Proposed Alternative. A "reasonable extraction and use" exception should be crafted which is similar to the copyright fair use exception and which does not contain absolute bars to its application. For example, the factors should include the nature of the use, amount of the material extracted or used, and effect on the market for the work. Sub-factors may be identified, including (i) the extent to which the extraction or dissemination is commercial or nonprofit, (ii) if the extracted material is incorporated into an independent work or collection, the extent of transformation, (iii) whether the amount of material extracted is appropriate and customary for the purpose of the extraction, (iv) whether any resulting collection is marketed to persons engaged in the same field or business as the extractor, and (v) the extent to which a resulting collection that is offered in commerce is likely to serve as a significant market substitute in the primary market for the original collection. Courts should also be instructed to take into account that the nature of the collection, as a collection of facts, is ordinarily entitled to less protection against fair use than an original work of creative authorship under copyright law.

This reasonable use exception should be combined with the narrower scope of protection discussed in Parts III.A. through III.D.

G. The Bill Should Protect the Public against Unreasonable Market Power from Compilations that Are Not Readily Available from Competitive Sources.

The public ordinarily is protected from unreasonable prices arising from a seller's unconstrained market power through the operation of the marketplace. If excessive prices are charged, large profits will be earned, which in turn will encourage the entry of competitors. Unfortunately, there are many reasons that this mechanism might not work for compilations of information. The information contained in a compilation may not be readily available from competing sources. It may be under the control of the compilation provider; it may be historical information that is no longer available to the public; or it have been collected at substantial cost over a long period of time, creating a barrier to competitive entry. In these cases, providing the protection contemplated by H.R. 354 could grant substantial market power, resulting in excessive prices for information and returns greater than that needed to stimulate development of the information products. As the Federal Trade Commission cautioned in its September 28, 1998 comments on last year's Collections of Informa-

⁵At most, the exception could provide that "acts that are part of a pattern, system, or repeated practice by the same party, related parties, or parties acting in concert with respect to the same collection of information or a series of related collections of information should be aggregated for consideration of the applicability of this paragraph."

tion Antipiracy Act, "policies the further entrench the market power of single-source data providers could have an unintended potential for anticompetitive conduct."

In its consideration of granting these new rights over information products, Congress should ensure that such power is not created. There is no public policy justification for granting super-competitive market power to the providers of information products. The incentive to create will be maintained by providing reasonable returns, not monopoly returns. Conversely, as discussed at the beginning of this statement, there are strong public policy reasons to ensure that information is made available to the public on a reasonable basis.

Antitrust law does not provide adequate protection against market power that may be created by legislation. The Federal Trade Commission recognized this point in its comments last year. Market power is not per se unlawful under the antitrust laws. It may be gained in numerous ways that are lawful, including the granting of rights by Congress. Even if charging high prices or imposing unreasonable terms did violate the law, it is extremely difficult and expensive to bring an antitrust case. Such suits are not viable protection from the market power that this bill creates.

Proposed Alternative. There are several possible approaches to address the issue of unreasonable market power. For example, the bill could encourage database proprietors to charge reasonable royalties by providing that it shall be a complete defense to an action that plaintiff did not make the compilation available for a reasonable royalty. Alternatively, the bill could limit the available remedy to a reasonable royalty in cases in which competitive sources of the information in the compilation did not exist. These limitations should apply with respect to any extraction right that is included in the bill and to the incorporation of information into a transformed product (to the extent such conduct remains actionable under section 1402).

H. The Bill Should Secure Access to Older Versions of Protected Compilations, in order To Protect Against Perpetual Protection.

The revision of section 1408(c), which provides that investment in the maintenance of an existing compilation cannot extend the term of protection for that compilation, is a valuable addition to the bill. We are concerned, however, that it is only a partial solution to ensuring that the bill does not result in perpetual protection for continually updated compilations. It does little good for the bill to end protection for an old compilation if the compilation is no longer accessible by the public. Access to older versions of compilations that have fallen into the public domain should be preserved.

Proposed Alternative. One means of preserving access, of course, is to create a registration and deposit system using the Copyright Office. This approach would have the advantage of the Copyright Office's experience in protecting access and would ensure that protection would be contingent on access following expiration of protection. However, this approach would entail administrative costs that Congress may not wish the public to bear.

Another approach that could work would be to require the party seeking protection under the Act to maintain expired versions of the compilation in a manner freely accessible to the public. Failure to comply with this requirement would preclude protection for more recent revised versions of the compilation. In order to ensure that the public is aware that earlier versions are available, the proprietor of a database should be required to include a notice with the compilation setting forth the year protection was first claimed and, after older versions become available, where they may be found.

I. The Bill Should Ensure that Institutions that Act as Online Service Providers Are Not Subjected to Liability.

As the higher education community pointed out in last years' debate on H.R. 2281, the Digital Millennium Copyright Act, universities and colleges frequently offer their students and faculty access to the Internet and other computer networks. Congress recognized that these institutions could not reasonably be held accountable for the online conduct of such persons who infringe copyrights. It is even more difficult for an institution providing such online services to differentiate between the facts and information that form the basis of academic discourse, and protected "compilations."

Unfortunately, as it is now drafted, a system that transmits or stores a collection or a part of a collection could be said to be "using" that collection. Even narrowed as recommended in Part III.A., a system that is used to disseminate extracted material could be said to be participating in the dissemination. Such a result would not be appropriate, and for all of the reasons discussed in the debate last year, should be expressly precluded.

The prohibitions of H.R. 354 should be targeted at the person or entity engaging in the specifically proscribed conduct, not on intermediaries whose systems or networks are used by those persons or entities to transmit information. The bill should make clear that no liability attaches to such intermediaries.

Proposed Alternative. The Senator Hatch's Discussion Draft and the Fair Database Competition Act both include a provision making clear that online service providers are not subject to liability. This provision should be included in H.R. 354. In addition, universities and colleges need language making clear that the conduct and knowledge of faculty members and graduate students engaged in research or teaching activities will not be imputed to the institution.

J. Non-Profit Teaching Activities Should Be Granted a Clear Exemption from Liability, Akin to the Exemption in Copyright Act Section 110.

Non-profit teaching activities are entitled to clear exemptions from liability under Copyright Act section 110(a)(1) & (2). These provisions of copyright law make clear that it is not an infringement to perform, display or transmit a copyrighted work in the course of instruction by a non-profit educational institution. These exemptions are not subject to the risk of fact-intensive litigation that surrounds more general claims of fair use. In keeping with the principle that H.R. 354 should not offer protection that is not available to copyrighted works under copyright law, similar exceptions should be provided for compilations protected by H.R. 354.

Proposed Alternative. The extraction and dissemination of information for purposes of display or distribution to pupils in the classroom (or the distance education equivalent) should be granted a clear exception from liability.

IV. TECHNICAL CONCERNS

In addition to the major substantive concerns discussed above, the Higher Education Associations have a few comments of a more technical drafting nature. We assume that the first two are simply drafting oversights.

A. Overly Broad Monetary Relief.

The bill provides for monetary relief that is significantly greater than that provided under copyright law. As drafted, subsection 1406(d) mandates recovery of "defendant's profits not taken into account in computing the damages sustained by the plaintiff." Curiously, however, the subsection does not contain a critical limitation contained in Copyright Act section 504(b), after which it was modeled. Specifically, recoverable profits are limited to those "that are attributable to the infringement." Similarly, subsection 504(d) permits a defendant to prove and deduct "the elements of profit attributable to factors other than the copyrighted work." The analogous language is not found in subsection 1406(d). It is inconceivable that H.R. 354 contemplates the recovery of *all* of the violator's profits, relief that far exceeds that available under copyright law.

B. Limitations on Penalties and Criminal Liability for Non-Profit Educational Institutions.

The Higher Education Associations appreciate the two limitations of liability for employees and agents of non-profit educational institutions contained in the bill. Section 1406(e) provides for the reduction of monetary relief in cases in which the defendant is the employee or agent of a non-profit educational institution acting in good faith. Section 1407(a)(2) precludes criminal penalties against the employee or agent of a non-profit educational institution. In each case, the provision applies to employees or agents of educational institutions, but inexplicably fails to provide equivalent protection to the institution itself. It is certainly possible that suit will be brought directly against a non-profit educational institution in its own right, rather than against an employee or agent. Each of these limitations should expressly apply to the institution as well as to its agents and employees.

C. The Protection of State University Databases under Section 1404(a).

As we noted at the outset of this statement, universities and colleges are not only users of compilations of information, they also act as creators of collections that should be protected to the same extent as collections created by commercial providers. In this statement, we have argued for specifically targeted protections for collections of information. Whatever level of protection Congress ultimately deems appropriate should be available to universities and colleges on the same terms. Moreover, there is no reason to discriminate against state universities and colleges when they act as creators. For these reasons, we appreciate the recognition that collections developed by state educational institutions are not precluded from protection under section 1404. We are concerned, however, that the language "in the course of engag-

ing in education or scholarship" might be misconstrued to exclude research or other activities of the institution. For that reason, we suggest that the final nine words of paragraph 1404(a)(1) be stricken.

Mr. COBLE. Thank you, Mr. Phelps.
Mr. Duncan.

STATEMENT OF DAN DUNCAN, VICE PRESIDENT, GOVERNMENT AFFAIRS, SOFTWARE & INFORMATION INDUSTRY ASSOCIATION

Mr. DUNCAN. Thank you, Mr. Chairman. You've already described me and my trade association so I won't go into that again.

I had hoped, Mr. Chairman, that we could all come here today and offer you a nice, big birthday cake of recognition and compromise on database protection but from what I'm hearing from the administration and from some of the continued opponents of this legislation it seems they're constructing a cake that's made more of aspartame. It may look good and it may even taste good at first bite but there's not a whole lot of substance to what they're proposing.

The database industry is very concerned. It is concerned because, as many of us have already noted and the subcommittee found out, there is no general Federal protection for databases.

The industry is also concerned because of what's going on overseas. The fact of the matter is that nine EU nations have already enacted a database law. Each of those database laws has a reciprocity provision in it. That means that no database that's not located in another European Union nation or in a nation that has a comparable law will ever be protected. That's a threat to trade. One that's so great that last year the USTR noted that threat to the American database industry in its special 301 report.

I want to go over briefly what H.R. 354 does do and what it does not do. Let's say what it does not do first. It does not create rights like copyright. It does not prevent use of databases. It will only allow a court to stop the misappropriation of somebody else's property if that piracy has the ability, the proven ability, to harm a market for a database.

It does not take facts out of the public domain but rather, encourages database owners to seek out facts and make them available to the general public in comprehensive, useful, reliable and accurate formats and products.

It does not interfere with legitimate first amendment rights of free speech, commentary, criticism or the exchange of ideas.

Courts have balanced these kinds of protections against first amendment rights for many, many years and we would trust—I think we should trust—in the courts that they will do a good job of doing so once this legislation becomes law.

It also doesn't interfere with the operations of the Internet.

What this bill does do, Mr. Chairman, is allow a very limited ability for a database owner to stop further market threatening activities only after he has invested substantial resources in creating a database and offer that database in commerce, and only after the harmful activity has been proven.

It clarifies that anyone is free to gather facts and data from any place other than such a database and go on to create their own col-

lection of information. It promotes even greater access to and dissemination of Government information. It assures that freedom of the press is maintained and it preserves the sanctity of laws regarding privacy protection, antitrust and contract.

But even this limited protection is further constrained under the bill, Mr. Chairman. There are broad concessions already provided to educators, scientists, researchers, libraries and their patrons. There's a big general fair use provision in this bill. There are special concessions for verification of a person's own data by using another database, which is an important activity for the scientific and research community.

It limits the harm standard applicable to these users only to activities that directly affect the actual market for the database.

There are no statutory damages under this bill as there are under copyright law, Mr. Chairman. There are no criminal penalties that can ever be assessed against an educator, researcher or scientist. And there's a mandatory reduction of actual damage awards for those types of users which, as anybody who has ever tried to go into court and get actual damages, understands how hard that is to begin with. And these are the only damages that a database producer is ever likely to recover. These users also will be awarded court costs and attorneys fees should a database producer be found to have brought a false claim.

There's also a further constraint on this limited right, Mr. Chairman. It alters the traditional notions of unfair competition and misappropriation laws and it does put a term limitation here. Normally there are no term limitations on these kinds of laws because the protection lasts as long as the market value of the item to be protected lasts.

There has been some talk also about alternative legislation and in reading over some of the written statements I want to see if I can't clear up some confusion.

This legislation has never been introduced. It was mentioned in a floor statement by Mr. Hatch on the 19th of January along with two other bills, one of which, Mr. Chairman, was your bill from last year. He put them forth simply as examples as to how we might want to address the database problem. But there's a big difference between what you have done, Mr. Chairman, along with your colleagues on the subcommittee, and what that bill proposes, and let me just go over a couple of those items.

The harmful activity standard in that legislation is limited only to duplication of a database. That means entirely copying the whole database. I believe that is a prohibited activity under the copyright law today, even after *Feist*, and I don't really see that this gets us much in terms of protecting what is really needed to be protected in terms of investment in databases.

It also limits to 3 years the time that a database owner would have to bring such a suit against harm. And if there is concern from the other side about prices rising because of protection for databases you can imagine what will happen if producers think they have only 3 years to try and recoup the total investment they put into a database before it can be harmed and taken away from them.

It would also prevent database owners from stopping misuse of their products and services by the non-profit community until a clear pattern and practice of abuse has been established and that abuse must be for purposes of direct competition or of avoiding payment of "reasonable fees."

Mr. Chairman, SIIA feels that H.R. 354 is duly balanced and fair but we also feel that the time to act is now. We are cautious about the new provision under section 1403[a][2]. We are looking forward to hearing what the proponents of that particular language really seek to gain. We feel it may open a very wide door to potential mischief, not only because it benefits non-profit users but also for-profit users. SIIA feels the bill is more than fair and balanced without this addition.

Most importantly, however, action to pass database protection law must come quickly. A similar bill, as you noted, was passed twice last year by the full House under the suspension calendar. All interested parties have had more than ample time to express their views and have them fairly considered by the subcommittee and your colleagues in Congress. Without this law industry will suffer, fewer databases will be produced, maintained and widely marketed.

The database industry is looking to Congress to pass a law that protects property and encourages creative innovation. That is what this debate is really about. That is what this bill would accomplish. Without such a law the database industry, its customers and the overall U.S. economy will eventually pay the price.

Thank you, Mr. Chairman.

[The complete statement of Mr. Duncan follows.]

PREPARED STATEMENT OF DAN DUNCAN, VICE PRESIDENT, GOVERNMENT AFFAIRS,
SOFTWARE & INFORMATION INDUSTRY ASSOCIATION

SUMMARY

Good morning, Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to testify on H.R. 354, the *Collections of Information Antipiracy Act*. I am Dan Duncan, Vice President for Government Affairs at the Software & Information Industry Association (SIIA). First off I would like to express SIIA's appreciation for your continued leadership, Mr. Chairman, in pursuing a fair and balanced statute to protect collections of information, or what are commonly known as databases.

The Software & Information Industry Association was formed in January of this year through a merging of the Software Publishers Association and the Information Industry Association. SIIA represents some 1400 companies that produce information and software products. As such, SIIA's members have a strong interest in the creation and further development of intellectual property laws, including copyright, patents, trademarks, and protection for databases.

What brings us here today is the inadequate state of our laws regarding the protection of databases. Developments in technology and in the legal framework here and in other parts of the world have increased the urgency with which action must be taken. Congress in the past has readily taken action when confronted with these circumstances. Statutes such as the *Digital Millennium Copyright Act* and the *No Electronic Theft Act*, enacted in the 105th Congress, illustrate this institution's ability to create legislation that is balanced, but also forward looking.

This bill, which is essentially the same legislation that passed the House twice last Congress, sets out a misappropriation approach to protecting databases. The bill would allow a database provider the ability to bring suit against a party that used a substantial portion of a product in a manner that affected the producer's ability to continue exploiting an actual or potential market for that product or a service of which it is a part.

As is well known, this is quite a distance from where we started. Early on, a rights-based protection similar to the type the Europeans have adopted, was considered and abandoned. The database community did not oppose this step because we recognize the need to take into account important societal principles concerning the free flow of information. Within this legislation a number and variety of exclusions and exemptions have been established that take these principles into account.

H.R. 354 also has some new provisions in it. Subsection 1408(c) clarifies that the protection under this bill will last for only 15 years. SIIA supports this clarification, while also noting that under traditional doctrines of misappropriation, protection lasts as long as the product or service has value in the market. One new provision we cannot support at this time is in subsection 1403(a)(2), "Additional Reasonable Users." While this provision appears similar to language found in the Copyright Act's section 107, SIIA fears that it may open the door to wide potential mischief.

As our Founders understood, and as is reflected in much of their handiwork in our Constitution, markets operate optimally when a predictable legal framework exists. The database community awaits the Congress' action to bring a reasonable and balanced piece of legislation to fruition.

INTRODUCTION

Good morning, Mr. Chairman and Members of the Subcommittee, and thank you for the opportunity to testify before you today on H.R. 354, the *Collections of Information Antipiracy Act*. My name is Dan Duncan, and I am Vice President for Government Affairs at the Software & Information Industry Association ("SIIA"). SIIA appreciates your continued leadership, Mr. Chairman, in establishing a fair and balanced law to protect databases, or collections of information, and sees your introduction of H.R. 354 as yet another important step in accomplishing that goal.

My remarks today will be brief and to the point: America's database producing community and its customers need a new federal law to protect databases that are otherwise noncopyrightable, and a law very much like H.R. 354 should accomplish that goal. Such a statute is absolutely critical if this important industry sector is to continue creating and maintaining high-quality, accurate and reliable products and services to meet the ever-growing market demand for comprehensive collections of information. Without such a law, market instability will only grow, due to a combined fear of unfair competition and unstoppable piracy.

SIIA AND ITS INTEREST IN DATABASE PROTECTION LEGISLATION

The Software & Information Industry Association was formed in January of this year through a merger of the former Software Publishers Association and the Information Industry Association. SIIA represents some 1400 companies that produce valuable information and software products crucial to the growth and value of electronic commerce. As such, SIIA and its members have a strong interest in establishing laws to protect all types of intellectual property, including copyrighted works, patents, trademarks and otherwise noncopyrightable databases.

The Association counts among its members the majority of the world's database producers, including The McGraw-Hill Companies, Reed-Elsevier, Inc., and The Thomson Corporation, as well as many small and medium-sized owners of collections of information, such as SilverPlatter, Inc. SIIA also represents the interests of a large number of other organizations whose primary business lies outside the area of database production but that nevertheless provide important collections of information as a function of their operations—the securities and commodities markets being prime examples of these types of organizations. SIIA is also a member of the Coalition Against Database Piracy, whose representative is also testifying today.

As Congress has repeatedly recognized in the last few years, new technologies present a growing threat to the ability of intellectual property owners to adequately guard against unfair competition and piracy. SIIA members strongly supported passage of the *Digital Millennium Copyright Act* and the *No Electronic Theft (NET) Act* in the 105th Congress. These are only two examples of instances in which this Subcommittee and its colleagues recognized a need to act quickly to ensure market stability by strengthening our laws.

Database owners are asking for no more and no less. Demand is growing for more and more information in digital formats, but at the same time, the technologies associated with the Internet are making it easier for collections of information to be copied and redistributed without the original owner's knowledge or permission. Yet, as I will outline below, the current U.S. legal environment is at best uncertain, and America's database owners face a clear commercial threat from overseas.

More and more, these companies are reassessing whether they should risk having their products widely distributed in digital formats that are so easily pirated. As their willingness to provide wide access to these valuable, reliable and accurate information products begins to falter, other industries will also suffer. For example, many software producers will have to forego business opportunities to create and market their products and services that aid in search and retrieval of information contained in databases.

Thus, it is SIIA's goal and commitment to you, Mr. Chairman, to work hard to see that a fair and balanced bill to protect collections of information is enacted in the 106th Congress. It will benefit the database industry and its customers and will create even more opportunities for ancillary industries to grow and prosper.

STATUS OF INADEQUATE PROTECTION AND THE THREAT FROM ABROAD

Collections of information are of increasing importance and value in the Information Age. These compilations of facts and data are expensive and time-consuming to build and maintain, yet their value to researchers, business professionals, government officials, and everyday citizens is immeasurable. Whether the database is a directory of names and addresses, a collection of agricultural, medical or economic data, or a compilation of laws and court decisions, it is most likely used extensively everyday by someone who needs to make a decision and to do so quickly and confidently.

America's database companies—large and small—produce about two-thirds of the databases available in the world market, and their products and services have consistently contributed positively to the U.S. balance of trade. The tens of thousands of Americans employed by database producers, and the millions of dollars invested in plant and product, have clearly contributed to the growth of the nation's economy at the dawning of the Information Age.

Yet, these investments and jobs are under increasing threat. Unlike other types of intellectual property—such as copyright, trademark and patent—collections of information are not protected adequately by uniform federal law. Because of this gap in the law, databases are likely to become even greater targets for theft and piracy from competitors and unscrupulous users here and abroad, unless Congress acts soon to establish a new, fair and balanced protection statute.

Following a 1991 U.S. Supreme Court decision in *Feist Publications v. Rural Telephone Service Co.*, 499 U.S. 340 (1991), lower courts have continued to chisel away at what were generally believed to be the groundrules for copyright protection for databases. Under the 1976 Copyright Act, databases are considered compilations, and those compilations are protected only to the extent that the factual material within them is originally selected and arranged. The Supreme Court ruling anticipated that even though an arrangement of facts in a white pages phone directory (the subject of the *Feist* case) did not meet this "originality threshold," most other databases would enjoy protection, although the facts contained within them could not be the subject of copyright protection.

However, as lower courts continue to interpret the *Feist* decision, there is increasing uncertainty about which databases will pass the copyright originality test. Even for those that do, courts have stated that a competitor or user is free to take all the facts contained in a database and reproduce them without fear of legal repercussion. For most databases; once the facts are pirated and reproduced, the substantial investment in time, money and personnel required to create the original database is difficult, if not impossible, to recover. Should that occur, the incentive for the database owner to continue production and innovation would be greatly jeopardized.

Nor are other forms of protection potentially available to database owners under U.S. law adequate either to assure market stability or to create incentives for quality production and maintenance of databases. Numerous studies—including the National Research Council's 1997 study entitled *Bits of Power*; the U.S. Copyright Office's 1997 *Report on Legal Protection for Databases* and the U.S. Patent and Trademark Office's *Report on and Recommendations from April 1998 Conference on Database Protection and Access Issues*—have all addressed this issue. It generally is agreed that neither contract law nor state misappropriation doctrines provide sufficient, uniform protection. Likewise, as indicated during the two hearings this Subcommittee held in the last Congress, technological protections are inadequate and will simply increase costs and burdens for access to collections of information.

In addition to the growing legal uncertainties at home, American database owners face additional problems overseas. In 1996, the European Union (EU) finalized its *Directive on the legal protection of databases*. Under that law, each of the 15 EU member countries—among them many of America's largest trading partners—is required to implement new laws that protect databases that are not deemed copy-

rightable. As part of these new laws, however, each country is precluded from extending protection to databases produced outside an EU nation, unless the home nation of the database owner has "comparable" laws in place. EU officials are aggressively pursuing implementation of the *Directive* and encouraging their trading partners in Europe to enact similar laws. Although just at the beginning stages of implementation, this "reciprocity" provision is a clear threat to America's leadership in the database marketplace, so much so that last year the U.S. Trade Representative added a special caution about the *Directive's* potential effect on America's database industry in its Special 301 Report.

Outside Europe, other nations are beginning to act as well. Mexico has had a database protection law in place since 1997, also with reciprocity provisions. Brazil has adopted a similar law. Last year, Canada did its own study on database protection,¹ which reviewed the current state of Canadian law and summarized that no general legal protection exists in that nation for the protection of databases that are otherwise noncopyrightable. Yet, as the world moves forward, we in the United States seem to be stymied, and while we should not adopt laws just to respond to other nations' actions, neither can we, in today's global marketplace, willingly relinquish our leadership in important issues affecting our crucial industries and their customers. The longer we wait, the more likely that the EU model—strong copyright-like protections extended only to producers in countries where similar laws are already in force—will prevail.

KEY PROVISIONS OF THE COLLECTIONS OF INFORMATION ANTIPIRACY ACT

Clearly, these threats to market stability for America's database producers and their customers, whether at home or abroad, have been growing steadily in the past few years. The questions of whether databases have adequate protection under U.S. law or whether there is a potential trade threat to America's database industry are settled. What we must address now is the type of protection that both addresses the necessary components of U.S. database legislation and that assures the least possible controversy over whether our law will be viewed as comparable by other nations either within or outside the European Union.

H.R. 354 is essentially the same legislation that passed the full House twice and unanimously in the 105th Congress—once as H.R. 2652 and again as Title V. of H.R. 2281. That bill was strongly supported by the database industry, even though it fell far short of what the industry would have preferred or what has been enacted in other nations. For example, rather than creating rights for databases owners, as does the EU *Directive* or as does copyright law for copyright owners, the legislation simply allowed database owners to go to court to stop a misuse of their products and services, *only after* the harmful activity ensued. Even then, the level of harm incurred would be judged by whether all or a substantial portion of the collection of information was misused and by whether such activity affected the ability of the owner to continue exploiting the actual or potential market for the product or service.

The legislation approved by the House last year made numerous exceptions even to this limited protection. As Title V of H.R. 2281, the bill provided nonprofit educational, scientific or research users a special exemption, in that their potential misuse could be judged only as to whether it harmed the actual market for the database. For the many database producers who create and market their products particularly or even primarily for those customers, this was—and remains—a major, problematic concession. Moreover, the legislation contained a special provision stating that use and extraction of individual items or insubstantial portions of a database could never be considered harmful. It also provided that uses of databases for purposes of verifying one's own independently gathered data—an important activity in the science and research communities—would not be actionable.

The bill also mandated that courts automatically reduce any monetary damages that might be assessed against "good faith" nonprofit uses and stipulated they would never face criminal penalties. It further required producers that bring bad faith suits against these users to cover court costs and attorneys fees. Given the breadth of these amendments to the legislation you introduced in September 1997—which provide more deference to "fair uses" than is the case under copyright law—it is puzzling to the industry why the fair use communities continue to oppose this

¹ Howell, Robert, *Database Protection and Canadian Laws* (prepared for Industry Canada and Canadian Heritage), October 1998. The paper has an extensive discussion of *Tele-Direct (Publications) Inc. v. American Business Information Inc.* (1996), 74 C.P.R. (3d), 72 (F.C.T.D.) aff'd (1997), 76 C.P.R. (ed) 296 (F.C.A.), and notes that as a result of that decision, Canadian courts will now have to adopt a *Feist* test when considering whether databases are protected in that country.

legislation. The industry recognizes the special concerns and needs of these non-profit customers, and we are ready to endorse again a bill that contains these exceptions.

Title V of H.R. 2281 did—as does H.R. 354—contain other important provisions that help assure that access to raw facts and information remains as open as possible. This is an important point. However, such access should not be confused with the need to protect collections of information and facts in which a producer has invested substantial resources and risk to bring to market. Just as in the last Congress, H.R. 354 provides that anyone can still independently gather or use information from an original or third party source to create a competing database. The bill also contains a special provision assuring that collections of government information—whether federal state or local, and regardless of whether they are produced directly by a government entity or by an entity's agent or exclusive licensee—will never be granted protection.² The legislation also provides an important and special exception for a broad array of newsreporting purposes and contains a provision equivalent to the copyright law's first sale doctrine. Finally, H.R. 354 contains a special section designed to assure that databases crucial to the functioning and operation of digital, online communications—including the Internet—will not be protected. All of these provisions are supported by the database industry, in recognition of the public's need for broad access to facts and data, especially in the digital world, while still encouraging companies to produce valuable and reliable information tools.

OTHER ISSUES

SIIA is well aware that despite your attempts to address the objections raised by many parties during the 105th Congress, some concerns may still remain. The Association would caution, however, that in attempting to address these concerns, a careful approach be taken.

Perhaps the most succinct summary of outstanding concerns was provided in the letter sent to you and many of your colleagues last August by Mr. Andrew Pincus, General Counsel of the Department of Commerce, on behalf of the Administration. As you will recall, the letter was sent just as the House was about to pass unanimously the *Collections of Information Antipiracy Act* for the second time. The views expressed in that letter are well worth noting and deserve comment.

The first point is that this legislation "may increase transaction costs in data use." That issue, Mr. Chairman, is one that is hard to refute, but also hard to confirm. With the advent of the Information Age, facts and data have become increasingly valuable, and although some may dispute that information is a commodity, it cannot be denied that as data become more valuable in the marketplace, prices will respond to the laws of supply and demand. SIIA would respectfully suggest that the issue is not whether prices may rise, but rather whether a competitive marketplace can be sustained in which those who wish to produce valuable information sources and those who wish to purchase and use them have sufficient sources available. Without legislation such as H.R. 354, the answer should be clear: collections of high-quality, reliable information will diminish, and some may even disappear. With such a law, however, the incentive will remain for both profit-seeking and nonprofit organizations to provide a wide variety of databases to meet customer and user needs. As a result, supply should increase to meet demand, and even more comprehensive databases, offered with varying price structures, should arise.

A second concern raised is that the *Collections of Information Antipiracy Act* may not go far enough in terms of assuring that government information sources remain available. In this regard, critics call for Congress to include provisions that recognize data policies set forth in circulars issued by the Office of Management and Budget ("OMB") and the many different arrangements under which government-funded data are gathered, maintained, and organized. As an Association whose members have a long history of promoting open access to and dissemination of government information, SIIA finds this argument somewhat spurious.

Many SIIA members have worked tirelessly to assure that OMB's Office of Information and Regulatory Affairs enforce fully the provisions of the *Paperwork Reduction Act of 1995* (45 U.S.C. 3506(d)). That law, passed under the current Administration, applies only to federal executive branch agencies. By contrast H.R. 354 would encourage equally broad access to and dissemination of government data in every branch of government at every level of government. Nothing in H.R. 354 hinders

² It is worth noting, that the lack of protection for government databases does not extend to those created by federal or state educational institutions, despite the fact that such data is also publicly funded.

or prohibits implementation of the law already on the books, which is itself in concert with OMB Circular A-130. Both the statute and the Circular require agencies to: (1) ensure that the public has timely and equitable access to their public information; (2) regularly solicit and consider public input on their information dissemination activities; (3) provide adequate notice when initiating, substantially modifying or terminating significant information products; and (4) prohibit exclusive, restricted or other types of distribution arrangements that interfere with the availability of public information, including restricting use or resale or charging fees or royalties for such information.

Unfortunately, despite the clarity of this law, it has not been adequately enforced. Agency after agency—including some within the Department of Commerce—has disregarded nearly every one of these tenets.

A database protection statute is not needed to address the concerns regarding inadequate enforcement of the law already on the books. Rather, the government itself can solve this problem through responsible and lawful agency activities and through enforcement of current law by OMB. Critics of the government information provisions in H.R. 354 are aiming at the wrong target. Their concerns would be more easily allayed if they would join industry efforts in working to strengthen and enforce existing laws and regulations.

A third issue raised in the letter regards the inadequacy of "fair use" under your bill, Mr. Chairman. I have already given the industry perspective on this issue, and will not repeat here the many provisions of H.R. 354 that more than adequately address the needs of nonprofit educational, scientific and research communities, as well as those secondary database publishers who have in the past been vocally opposed to database protection.

Another concern raised regards the harm that misuse of collections of information may cause to "potential" markets. SIIA would note that this term has long been present in our Nation's intellectual property laws. Indeed, under the 1976 *Copyright Act*, the effect of a use upon the potential market is mentioned among the four elements that courts must consider in determining whether fair use has been made of a work.³ Yet unlike copyright law—where fair use is an affirmative defense—under H.R. 354 the burden is on database owners to prove harm to their actual or potential market.

Regardless of the wisdom in adopting a long-standing and tested standard from another set of intellectual property law, there is a practical consideration here, Mr. Chairman. Businesses do not today, and will not tomorrow, make major investments in products and services with the belief that they can exploit only the current, actual market in which they desire to offer such products and services. Database producers should not be precluded from meeting new demands and exploiting new uses for their products and services during the limited 15-year period during which this legislation provides them limited means to combat unfair use of their work.

One final concern that continues to be raised is whether a law similar to H.R. 354 would be constitutional. There can never be complete certainty regarding the constitutionality of any law Congress enacts, for that is solely and ultimately up to the Supreme Court to determine. However, in crafting the *Collections of Information Antipiracy Act* to create limited, commerce-based protection, Congress is relying on its Commerce Clause powers under Article I, Section 8, Clause 3 of the Constitution. In that regard, it will follow the successful and well-founded model that has been used to grant protection to trademarks

SIIA COMMENTS ON NEW PROVISIONS OF H.R. 354

SIIA notes that H.R. 354 contains some new language above and beyond the bill that was passed twice last year by the House. It is incumbent upon the Association to offer its preliminary comments on these provisions. Language was added in Subsection 1408(c) to clarify that the limited protection under this bill will last for only 15 years. SIIA supports this clarification, while noting that under traditional doctrines of misappropriation and unfair competition—where protection lasts for as long as the product or service has value in the market—no term limitation is necessary. There are many databases whose value extends far beyond a 15-year period. However, clarifying a limited term will hopefully allay some concerns that this proposed statute creates "perpetual protection" for databases and will have the additional benefit of establishing under U.S. law a limited term of protection comparable to that found in the EU Directive.

Another new provision is found in Subsection 1403(a)(2), "Additional Reasonable Uses." Regrettably, Mr. Chairman, SIIA cannot at this point endorse this change

³ 17 U.S.C. 107

from last year's legislation. While the provision appears at first glance somewhat similar to language found in 17 U.S.C. 107, it opens a door to potential mischief by being much broader than the copyright fair use exception—whether in regard to profit-seeking or nonprofit uses of databases. Therefore, before commenting further on this apparent expansion of the bill's already generous provisions exempting nonprofit activities in relation to databases, SIIA wants to carefully listen to and analyze the reasons why proponents of this language feel it is needed. The Association believes firmly, however, that those who wish to make use of a database owner's product or service should not be free—under the pretext of having “transformed” or “added value” to a substantial part of the original database—to then harm the market for the first producer's collection of information.

CONCLUSION

In closing, Mr. Chairman and Members of the Subcommittee, SIIA wishes again to express its appreciation for the Subcommittee's interest in considering legislation to protect America's databases. H.R. 354 remains in whole a balanced and fair bill, and a new statute along these lines will provide the necessary incentives to database owners to continue investing time, money and personnel necessary to create and maintain databases. With such incentives, valuable and reliable collections of information will be more widely available in a large number of formats. A new law will also assure that those who use databases fairly can obtain quicker and wider access to these products and services. Finally, it will prevent the erosion of a traditionally strong and vibrant U.S. economic sector and those other sectors that benefit from its existence.

The Association looks forward to working with you to assure that we finally see a fair and balanced database protection law enacted.

Thank you, and I will be glad to answer any questions.

PREPARED STATEMENT OF THE COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION, THE INFORMATION TECHNOLOGY ASSOCIATION OF AMERICA AND THE ONLINE BANKING ASSOCIATION

INTRODUCTION

This testimony is being presented by trade associations representing a large number of companies involved in the American database industry. Because databases (1) are items of commerce in their own right, (2) are critical tools for facilitating electronic commerce, research, and educational endeavors, and (3) already enjoy substantial legal (copyright and contract) and technological protections, we support federal legislation carefully tailored to provide database proprietors with focused protection against piracy. Conversely, we have consistently opposed legislation that would grant the compiler of any information an unprecedented right to control transformative, value-added, downstream uses of the collection of information or any useful fraction of that collection.

The Computer & Communications Industry Association, the Information Technology Association of America, and the Online Banking Association are the proponents of this specific testimony. However, we have attached to this testimony a copy of a “position statement” to which a number of additional companies, trade associations, institutions, and representatives of the scientific, research, library, and educational communities have recently subscribed. The parties subscribing to the position statement include entities, companies, and trade associations that represent companies that create, sell access to, and use a broad variety of databases. The activities of these companies and entities are vital to American and global commerce. Serious concerns regarding the potential harm to the American database industry and to the economy more generally threatened by the bill under consideration in the House Judiciary Committee, H.R. 354, have caused these companies join together to participate collectively and constructively in the legislative and public policy process that we hope can lead to a balanced and equitable solution to the issue of database protection. We greatly appreciate the opportunity to submit our views through this written testimony.

SUMMARY OF POSITION

As a general matter, we believe that any federal database protection legislation ought to be focused only on protecting database businesses against harmful parasitic conduct of competitors (and, of course, against malicious acts of vandals). Such protection should not—and under the Constitution, may not—extend to facts and other public domain material, as such, whether or not such data are contained in a database. Compilers of information should not be given a statutory right to control

transformative, value-added, downstream uses of information. Unless a taking of information is of a kind that (a) infringes upon existing rights under contracts or Copyright law or (b) genuinely threatens the economic viability of a database business, it should not be illegal.

In order to continue the robust growth and development of the "Information Age", information must continue to be a readily accessible commodity. We are concerned that H.R. 354 would most likely empower those in control of information to impose new private taxes on access to information, which surely would not enhance access to information. Database proprietors should not have a statutory right to prohibit (or charge a royalty for) uses of information contained in databases that do not harmfully compete with or displace the original compiler's actual business. The goal of laws in this area should not be to lock up factual data and information but rather to promote products and services that make such data intelligible and useful—so-called "transformative" and "value-added" services.

Evaluated against this template, H.R. 354 goes far beyond its stated goals and broadly prohibits access to facts and public domain material. As the Federal Trade Commission, the Commerce Department, and the Justice Department recognized with respect to largely identical legislation in the 105th Congress, H.R. 354 presents significant competitive and Constitutional concerns that could and should be avoided by approaching the issue of database protection in a more targeted manner.

WE SUPPORT DATABASE PROTECTION LEGISLATION THAT FOLLOWS THE JUDICIALLY
CREATED MISAPPROPRIATION DOCTRINE

The associations are willing to support a carefully tailored federal codification of the judicially created and constitutionally consistent misappropriation doctrine. A recent decision of the United States Court of Appeals for the Second Circuit, *National Basketball Association v. Motorola, Inc.*, 105 F.3d 841 (2d Cir. 1997), provides a coherent restatement of the essential principles of the traditional tort of misappropriation and a useful starting point for potential federal legislation directed against misappropriation. In *NBA*, the Second Circuit considered the National Basketball Association's claim that a service providing sports scores to fans through paging devices misappropriated the NBA's rights in its basketball games. The defendant got the scores from reporters who watched or listened to broadcasts of the games on television or radio and keyed information about the games into personal computers. No information proprietary to the NBA was taken and the NBA was not in the pager sports score business (although it said that it might one day want to be in that business). The court defined misappropriation under New York law (derived initially from the Supreme Court decision in *INS v. AP*) as incorporating the following elements:

1. The plaintiff generated or gathered information at a cost;
2. The information is time-sensitive;
3. The defendant, by using the plaintiffs information, is free-riding on the plaintiffs efforts;
4. The defendant is a direct competitor of a product or service offered by the plaintiff; and
5. Free-riding by the defendant and others on the plaintiffs efforts would so reduce the incentive to produce the product or service in question that its existence or quality would be substantially threatened.

Applying these criteria, the Second Circuit found that nothing that the defendant did inflicted any harm on the NBA. Thus, there was no basis for a claim of misappropriation. The court noted that the result might well have been different if the defendant had been taking its data from a competing sports score pager service and thereby free-riding on the efforts of the first service.

To some extent, the limitations set out in *NBA* arise from the need to harmonize misappropriation claims under state law with the preemption of state law mandated by Section 301 of the 1976 Copyright Act. To that extent, the requirements could be adjusted by enactment of a federal misappropriation law. However, such adjustments would have to conform to the constitutional holding in *Feist Publications, Inc. v. Rural Telephone Service Co.*, 499 U.S. 340 (1991), which generally precludes legislation taking facts out of the public domain but expressly condones the traditional misappropriation doctrine.

H.R. 354 HAS A NUMBER OF PROBLEMS THAT PROBABLY CANNOT BE CURED BY
AMENDMENTS

Inherent in the structure and approach embodied in H.R. 354 are certain problems and unintended consequences that we believe cannot be effectively cured without shifting to a new template. Conceptually, those problems are the product of an approach that starts with a broad and monolithic prohibition on access to and use of information and then tries to carve out piecemeal exceptions to that prohibition. We believe that many of these problems could be avoided if the issue were approached by a law prohibiting only specific harmful practices against the background of a general presumption of unfettered access to information. Since the only articulated need for legislation is to prevent parasitic undermining of incentives to make new investments in databases, a database protection law ought to be focused on the prevention of that particular harm.

We believe that H.R. 354 does not adequately address some key issues of concern to participants in the commercial database industry, including the following:

- *It applies to small amounts of information.* H.R. 354 prohibits the extraction, or use in commerce, of "a substantial part, measured either quantitatively or qualitatively, of a collection of information. . . ." By allowing the database publisher to prevent reuses of "qualitatively" substantial parts of a database, H.R. 354 effectively prevents the reuse of any information. The second-generation publisher has no way of knowing which bits of information the first generation publisher considers qualitatively substantial. Moreover, if the first generation publisher chose to litigate over even a very minor reuse of information, that action could never be resolved on summary judgment because the qualitative substantiality of the taking would always be a question of fact.
- *It can prohibit legitimate reuse of information.* H.R. 354 prohibits the reuse of information "so as to harm the actual or potential market" of the publisher. Any harm, even one lost sale, would suffice to establish liability. Moreover, "potential market" is defined to mean any market the person claiming protection "has current and demonstrable plans to exploit or that is commonly exploited by persons offering similar products or services. . . ." Since it is common to reuse information in new products, almost any reuse of information could arguably meet this test. As a result, publicly useful products and services could be kept off the market for years by an inattentive or monopolistic database proprietor.
- *The new reasonable use exception is too narrow.* H.R. 354 includes a new provision for "reasonable uses" which did not appear in H.R. 2652. This provision is certainly a step in the right direction, particularly because it considers "the extent to which and the manner in which the portion used or extracted is incorporated into an independent work or collection, and the degree of difference between the collection from which the use of extraction is made and the independent work or collection."

However, the new reasonable use exception is only available for extractions "done for the purpose of illustration, explanation, example, comment, criticism, teaching, research, or analysis. . . ." Presumably an extraction for inclusion in a commercial database, even one used by others for teaching, research or analysis, would not qualify.

Nor is the exception available for a second-generation product which "is likely to serve as a market substitute for all or part" of the first generation product. In other words, even if the second database is completely different from the first, in that it is far more comprehensive and far better organized, the publisher of the first database can pursue damages and injunctive relief because the second publisher extracted an allegedly qualitatively substantial part of the first database.

Not only is the "reasonable use" exception of H.R. 354 inapplicable to commercial value-added uses of databases, but this exception and the preexisting exception for nonprofit scientific and research use, carried over from H.R. 2652, provide no real comfort to the scientific researcher. In most cases, a scientist who reuses existing data to create a new database would not qualify for the preexisting research exception because the new database would "harm directly the actual market" for the first database. Indeed, the more revolutionary the new database, the more likely it is to harm the market for the first database. The new reasonable use exception also would not apply because the first database, from which the researcher extracted the information used in his or her new database, would probably qualify as one "primarily de-

veloped for and marketed to persons engaged in the same field or business as the person making the use," thus falling outside the scope of the exception.

- *H.R. 354 does not adequately respond to the significant threat posed by sole source databases.* To be sure, H.R. 354 permits the independent collection of information. In many instances, however, there is no feasible way for another person to collect the information independently. For historical information, for example, one cannot go back in time to gather the information; one must rely on existing databases. In other instances, the first generation publisher is also the original source of the information. The publication of the information is incidental to its main activity. In still other instances, the publisher may build up its database incrementally over many years, incurring modest costs along the way that it has already recovered.

The only other relief H.R. 354 provides with respect to sole source providers is to leave intact the antitrust laws. Because proving that a publisher has monopoly power in a relevant market is extremely difficult, and because antitrust enforcement and litigation have not generally been effective tools in restraining monopolists, however, the antitrust laws are unlikely to rein in sole source suppliers.

- *H.R. 354 applies retroactively.* Because H.R. 354 applies retroactively, any database created within the past fifteen years receives its protection. Databases already in existence, however, do not require an incentive to ensure their creation. The retroactive aspect of H.R. 354 provides publishers of existing databases with an unwarranted and unnecessary windfall profit.
- *H.R. 354 as a practical matter grants perpetual protection.* H.R. 354 attempts to correct a problem identified last year: that additional investment in the "maintenance" of a database could lead to a new term of protection for the database, thus resulting in perpetual protection. The new language, however, does not cure a more fundamental problem noted last year: with dynamic on-line databases, there will be no accessible hard copy record of the database as it existed on a certain date. Accordingly, the second publisher will have no way of knowing which portions of the database are more than fifteen years old, and thus no longer subject to protection. Theoretically possible private solutions to this problem, such as "tagging" each individual data element with a date code, would be prohibitively costly. The public and private costs of a registration or deposit system are likewise large and unjustifiable.
- *Fifteen years is too long.* Traditional misappropriation law recognizes that the value of information is linked to its recency or freshness. While a term of protection longer than that encompassed by the traditional "hot news" cases ought to be constitutionally permissible, a fifteen-year term is way too long for facts, public domain information, and most other kinds of information. The very concept of a fixed term is probably unworkable, because the period of protection necessary to protect a database proprietor's incentives to invest probably differs widely from database to database. Moreover, the inclusion of a fixed term—along with a fair ("reasonable") use exception—evidence that the proposed legislation would effectively give a form of copyright protection to databases. The Supreme Court's *Feist* decision holds that such protection would be unconstitutional.

Having given these problems careful thought, we believe that this bill as drafted would lock up the contents of databases rather than provide targeted protection to those engaged in database businesses against truly harmful parasitic or malicious behavior. Thus, despite considerable thought and effort, we have been unable to formulate amendments to H.R. 354 that both work within its framework and effectively and economically cure these problems.

CONCLUSION

We respectfully urge the Subcommittee to take full account of the fact that most database proprietors are also users of information contained in databases compiled by others. Many respectable and responsible companies engaged in compiling, selling access to, and using databases do not support H.R. 354 as currently drafted because they fear disruption of a healthy status quo in the database business.¹ These

¹ Between 1991 and 1997, according to statistics offered by proponents of H.R. 354, the number of databases increased 35 percent, the number of files contained within these databases increased 180 percent, and the number of online searches increased 80 percent. During that same period, major publishing companies spent billions of dollars to acquire US database businesses. These data attest to the healthy state of the US database industry under current law.

companies want to preserve a world in which they and all Americans enjoy the freedom to innovate new ways to analyze, present, and manipulate readily available information without the burden of new private taxes on access to information.

For this reason, we respectfully urge the Subcommittee not to proceed with H.R. 354 in its present form but rather to work with us and all of the stakeholders to craft a bill that addresses the problems and harms identified by the proponents of H.R. 354 without inadvertently stifling the growth and progress already underway as a result of American leadership in the Information Age.

Mr. COBLE. Mr. Duncan, you gave an example when you said that that would constitute a violation of the Copyright Act. Would you repeat that?

Mr. DUNCAN. Yes. Under the proposed legislation, sir, the harm standard is to duplicate an entire database. Duplicate means to take the entire—

Mr. BERMAN. Not under the proposed legislation.

Mr. DUNCAN. Under Mr. Hatch's. The bill that was mentioned by Mr. Hatch that is being proposed by some of the opponents. That would mean, sir, that you would take probably the entire selection and arrangement of that database as well. And even under the *Feist* decision my understanding is—although I'm not an attorney I have good ones that advise me—is that even under the *Feist* decision you would not be able to take the entire database, including the selection and arrangement and the other creative elements that are put in there other than factual material.

Mr. COBLE. Thank you, sir. I didn't tie that with what you said. Thank you for clarifying that.

Mr. Henderson.

STATEMENT OF LYNN HENDERSON, PRESIDENT, DOANE AGRICULTURAL SERVICES COMPANY

Mr. HENDERSON. Thank you, Mr. Chairman, distinguished members of the committee. I'll keep my eye on that green button, but please remember I'm from Missouri and we do tend to talk a little slower there.

Mr. COBLE. I would commend all of you, you've done a good job for not abusing that. We are appreciative to you for that.

Mr. HENDERSON. I thank you for the opportunity to testify before you and I want to thank the chairman and the sponsors of H.R. 354 for moving us toward the goal of statutory protection for databases.

I'm the President of Doane Agricultural Services Company, an 80 year old firm located in St. Louis. Our magazines, newsletters, market advisory and forecasting services, books, radio programs reach the entire agricultural industry. The company was founded in 1919 on the premise that we can not have a secure food supply without good information.

I'm also speaking on behalf of the Agricultural Publisher's Association, a coalition of mostly small businesses who provide vital, timely information to the nearly three million individuals who make up America's farming and farming related industries.

Nowhere is access to timely, accurate, usable and comprehensive databases more important than the agricultural and food production industries. For example, one of our products is our agricultural forecast database in which our economists sit down, collect raw data from the USDA and other Government agencies, adding value

by organizing, updating and presenting the information to advise farmers on when the best time is to sell their crops and livestock.

We compile volumes of data on acreage and production prices, crops and supply and demand, livestock, tailored all specifically to assist producers to stay in business to produce food for our country and the world.

Without protection for the significant labor, time and money we clearly won't have the resources to do this, let alone develop new applications of the data for our customers. This was brought home to me one day when I came upon a Web site where, to my horror, I found one of my products, our annual agromarketing services guide. This guide lists 2,000 organizations that are essential to the agricultural industry and requires hundreds of thousands of dollars of investment and thousands of hours of work on my staffs' part to produce annually.

The hard work of our staff in establishing relationships with the firms that they would supply us with the information as well as setting up the distribution and the marketing networks that were necessary were all bypassed by a pirate who was looking to make advertising revenues off of our staffs labor.

We filed a lawsuit against the pirate at considerable time and expense directing him to cease and desist. The pirate could have sought legal ways, I'm told, for continuing to pirate our data because of the lack of adequate protection but he did decide to comply with our request.

This is not an isolated case, nor is it the only way pirates threaten our viability. We face a danger both from the cumulative impact of each person who wants to make a fast buck and sell my product in a one shot deal or use it without paying the customary price as well as from the free rider who wants to regularly republish our information to grow his own information business.

As a practical matter pirates can simply put me out of business, or at least force me to construct so many legal and technological walls around my products that they become far less useful to our Nation's farmers. In fact, I hesitated to testify here today because I realize that there are pirates out there listening to this and if they got wind of our protection I'm advertising our vulnerability at this time.

Now, I'm all for competition in the free market but I want to meet my competitors in the marketplace, not see my products stolen and then used to undersell me.

We would bring many of our printed services on line today if we had the protection that's being offered by H.R. 354 where it is crystal clear that faster and easier access to timely information is useful to farmers. Label changes in herbicides are a perfect example. At this time of year as we get ready for the planting season they must be disseminated quickly for the safety of the farmers, the retailers, the applicators, their families and the consumers.

Today a third of the farm industry uses the Internet and a few years from now I think most will be on line. We'd like to be on line too with all of our products but just as the Internet promises farmers quicker access to better information, in the absence of legal protection it also allows quicker and cheaper pirating.

The Internet's instant distribution of current information promises an important role for on line databases in American farming. However, the very same ease of capturing and transmitting information also paradoxically gives the Internet an equally unprecedented ability to undermine the promise of better information for better farms and farmers in the absence of legal protection by making piracy quick, easy and cheap.

I also want to note the lack of protection to database, especially on the Internet, can reduce firms like myself in emerging markets as well as for our American farmers. In today's global economy we have real potential markets beyond our national borders, markets which we are currently unable to develop because of the lack of this protection. For example, a European grain buyer watching and planning his next move would benefit greatly from my information. Although today we could expand our service via the Internet we can't realistically pursue this avenue until legislation is enacted to protect our databases.

And if this is not then assumed these markets may be lost to us. Last year's EU directly gave European database producers protection, leaving us U.S. businesspeople out in the cold. Not only does this direct the electronic pirates abroad to our American databases, it also encourages European producers to pillage American databases, apparently all under the protection of the European law. This is neither tolerable nor acceptable to me, nor to other American small businessmen.

We need legislation which will help us protect and pursue new markets. People might not have immediately realized it but this legislation would help create new markets for our farmers as well, something we desperately need with the price crisis we have out there today.

Doane adds considerable value to turning the seemingly endless columns of numbers and symbols and raw data from public sources into readily understandable, usable and useful information for American farmers. It is simply wrong that our work is not considered important enough to warrant protection in the aftermath of the *Feist* decision.

Thank you for the opportunity to submit these comments and for your leadership in holding this hearing.

[The complete statement of Mr. Henderson follows.]

PREPARED STATEMENT OF LYNN HENDERSON, PRESIDENT, DOANE AGRICULTURAL SERVICES COMPANY

Mr. Chairman, Distinguished Members of the Committee,

I thank you for the opportunity to testify before you, and I want to thank the Chairman and sponsors of H.R. 354 for moving us forward toward the goal of statutory protection for databases.

I am the President of Doane Agricultural Services Company, an 80 year old firm that is one of the leading providers of information, economic forecasts and computer software for agricultural producers and those who serve them. Our magazine, newsletters, market advisory and forecasting services, books, and radio programs reach the entire agricultural industry. The company was founded in 1919 on the premise that *we cannot have a secure food supply without good information*. I am also speaking on behalf of the Agriculture Publishers Association, a coalition of mostly small businesses who provide vital and timely information to the nearly 3 million individuals who make up America's farming and farming-related industries. Nowhere is access to timely, accurate, usable and comprehensive databases more important than in the agricultural sector. From the day when the initial cropping decisions and in-

vestments are made until the price is set based on the latest marketing conditions, databases contain the information that allows farmers to make the most informed, best possible choices.

One of our products is the *Agricultural Forecast* database, in which the Doane economists collect raw data from USDA and other government agencies adding value by, organizing, updating and presenting the information to advise farmers on when the best time is to sell their crops and livestock. We compile volumes of data on acreage and production prices, crops and supply, and livestock, tailored specifically to assist farmers in profitable marketing of their crops and livestock.

This was brought home to me one day when I came upon a web-site, where, to my horror, I saw our *Agri Marketing Services Guide*. This annual guide to the 2,000 plus organizations, essential to the agriculture industry, requires thousands of hours of work and hundreds of thousands of dollars to collect and compile information. The hard work of our staff, from establishing relationships with firms so they agree to participate in the sharing of data to the setting up of distribution networks, was bypassed by this fellow, who was looking to make advertising revenue off of our labors.

We filed a lawsuit against that pirate at my considerable time and expense, asking him to cease and desist. This pirate could have sought legal ways, I am told, for continuing to pirate our data because of the lack of adequate protection, but, decided to comply.

This was not an isolated case nor is it the only way pirates threaten our viability. We face a danger both from the cumulative impact of each person who wants to make a fast buck and sell my product in a one-shot deal or use it without paying the customary price, as well as from the free-rider who wants to regularly re-publish our information to grow his own information business. As a practical matter, pirates could simply put me out of business or at least force me to construct so many legal and technological walls around our products that they become far less useful to this Nation's farmers. I hesitated to testify today because I realized that if he or others caught wind of this lack of protection, I could be advertising our vulnerability.

Now, I am all for competition and the free market, and I want to meet my competitors in the marketplace, but not see my product stolen and then used to undersell me. We would bring many of our printed services online if we had protection. For it is crystal clear that faster and easier access to timely information would be useful for all farmers. Label changes in herbicides, for example, must be disseminated quickly for the safety of our farmers, their families and the consumer.

Today one third of the farm industry uses the Internet, and three years from now most will be online. We'd like to be online too, with all of our products but just as the internet promises farmers quicker access to be better information, in the absence of legal protection, it also allows quicker and cheaper pirating. The Internet's instant distribution of current information promises an important role for online databases in American farming. However, the very same ease of capturing and transmitting information also, paradoxically, gives the Internet an equally unprecedented ability to undermine the promise of better information for better farms and farmers, in the absence of legal protection, by making piracy quick, easy and cheap.

I also want to note how the lack of protection for databases, especially on the Internet, can reduce a US firm's and American farmer's roles in markets. In today's global economy, we have real, possible markets beyond our national borders; markets which we are currently unable to develop because of the lack of protection. For example, a European grain buyer watching and planning his next move would benefit greatly from access to Doane's information services concerning American farm products. Although, today, we could expand our services via the Internet, we cannot realistically pursue this avenue until legislation is enacted to protect our databases; and if this is not done soon, these markets may be lost to us. Last year's European Union directive gave European database producers protection, leaving US businesses—in the absence of adequate protection here—out in the cold. Not only does this direct electronic pirates abroad to American databases, it also encourages European producers to pillage American databases, apparently all under the protection of European law. This is neither tolerable nor acceptable to me, nor to other American small businessmen. We need legislation which will help us protect and pursue new markets. People might not have immediately realized it, but this legislation will help create new markets for our farmers as well.

Doane adds considerable value to turning the seemingly endless columns of numbers and symbols and raw data from public sources into readily understandable, usable and useful information for American farmers. It is simply wrong that our work is not considered important enough to warrant protection in the aftermath of the *Feist* decision. Our company is hardly alone in providing such labor-intensive quality information to a waiting public. If I may, Mr. Chairman, I like to submit for

the record a list of all 97 publications from the Agricultural Publishers Association, who I represent here today, as well as a letter from last year signed by all the major agricultural interest groups asking Congress to pass a bill to protect databases from piracy. It is our sincere desire that you do so quickly.

Thank you for the opportunity to submit these comments, and for your leadership in holding this hearing.

AGRICULTURE IS INFORMATION

We, the undersigned 97 agriculture magazines, newsletters, journals, and databases, are writing to you to request that you vote for the "Manager's Amendment" to HR 2281, the WIPO Treaty. The "Manager's Amendment" includes HR 2652, The Collections of Information Antipiracy Act. HR. 2652 already passed the House on a voice vote May 19th, but time for enactment is short. As part of the "Manager's Amendment," America's databases will have the best chance of securing the protection against the piracy that now threatens them. We need protection now.

As agriculture publishers, we play a central role in the lives of modern farmers. Our market reports, surveys, forecasts, buyers guides, and directories are consulted daily by those in the agriculture and livestock sectors. In addition, farmers turn to us for the most up to date information on fertilizer regulations, herbicide use, pesticide safety, etc. Databases help farmers make crucial decisions, especially when it comes to buying supplies and selling their goods on the market. We bring a world of accurate and organized information right into the homes of millions of farmers. If our databases are not protected from piracy, the farmers who depend on us for reliable, up to the minute information will suffer an immeasurable loss.

We cannot continue to update and maintain our databases if one is able to simply copy and resell them without penalty. Antipiracy legislation must be enacted by the 105th Congress. At the present time, the American information industry is in grave danger. In order to get HR 2652 passed in the House, database producers had to announce to the world that they have absolutely no protection. It was an invitation to pirate us. The Database Directive passed by the European Union further complicates the situation. Beginning this year, European databases are protected against piracy, while American databases are completely vulnerable. This situation cannot be ignored.

Please vote for the "Manager's Amendment" to WIPO so database protection can become law this year. The piracy that we have already experienced is just the beginning. If Congress fails to act in the last days of this session, we can expect piracy of a magnitude far greater than that which we have already suffered. Agriculture needs protection for its databases now.

Sincerely,

COTTON FARMING MANAGEMENT,
CORN FARMER,
INSECT CONTROL GUIDE,
AGRICULTURE ONLINE,
DAIRY HERD MANAGEMENT,
FARM INDUSTRY NEWS,
FARM JOURNAL,
DELTA FARM PRESS,
SOYBEAN DIGEST,
RICE FARMER,
IOWA FARMER TODAY,
WEED CONTROL MANUAL,
CITRUS AND VEGETABLE GROWER,
NATIONAL HOG FARMER,
NEW YORK FARMER,
COTTON GROWER,
FARM INDUSTRY NEWS,
AMERICAN FRUIT GROWER,
AGRI-MARKETING,
AG RETAILER,
SOUTHEAST FARM PRESS,
AGRI FINANCE,
CALIFORNIA-ARIZONA FARM PRESS,
CROP DECISIONS,
VIRGINIAS FARMER,
HAY & FORAGE GROWER,
DAKOTA FARMER,
ILLINOIS FARMER,

BEEF MAGAZINE,
 INDIANA FARMER,
 BOVINE MANAGEMENT,
 IOWA FARMER,
 KANSAS FARMER,
 FARM CHEMICALS HANDBOOK,
 PEANUT GROWER,
 MICHIGAN FARMER,
 MINNESOTA FARMER,
 MISSOURI FARMER,
 NEBRASKA FARMER,
 OHIO FARMER-STOCKMAN,
 WISCONSIN AGRICULTURIST,
 MARYLAND FARMER,
 NEW ENGLAND FARMER,
 WESTERN FRUIT GROWER,
 FLORIDA GROWER & RANCHER,
 PENNSYLVANIA FARMER,
 ALABAMA FARMER,
 CAROLINA FARMER,
 FLORIDA FARMER,
 AG CONSULTANT,
 VEGETABLE INSECT MANAGEMENT,
 GEORGIA FARMER,
 KENTUCKY FARMER,
 FARM CHEMICALS INTERNATIONAL,
 PRODUCTORES DE HORTALEZ,
 TENNESSEE FARMER,
 ARKANSAS FARMER,
 THE GROWER,
 PLANT HEALTH GUIDE,
 LOUISIANA FARMER,
 MISSISSIPPI FARMER,
 ORNAMENTAL OUTLOOK,
 AMERICAN VEGETABLE GROWER,
 OKLAHOMA FARMER,
 NEW MEXICO FARMER,
 TEXAS FARMER,
 COLORADO RANCHER AND FARMER,
 PEANUT FARMER,
 COTTON INTERNATIONAL,
 LA NUEVA ERA,
 IDAHO FARMER,
 MONTANA FARMER,
 NEVADA FARMER,
 OREGON FARMER,
 WESTERN VEGETABLE GROWER,
 FARM CHEMICAL 3,
 UTAH FARMER,
 WASHINGTON FARMER,
 GREENHOUSE GROWER,
 WYOMING FARMER,
 ARIZONA FARMER,
 CALIFORNIA FARMER,
 FARM PROGRESS,
 SUCCESSFUL FARMING MAGAZINE,
 PORK '98,
 SOYBEAN GROWER,
 SOUTHWEST FARM PRESS,
 WHO'S WHO IN EGG AND POULTRY,
 BROILER INDUSTRY,
 TURKEY WORLD,
 POULTRY INTERNATIONAL,
 SUCCESSFUL FARMING,
 FLUE CURED TOBACCO FARMER,
 COTTON FARMING,
 BOVINE VETERIN,
 BURLEY FARMER.

AGRICULTURE NEEDS DATABASE PROTECTION

August 8, 1998.

Hon. THAD COCHRAN,
*The United States Senate,
 Agricultural Rural Development Subcommittee,
 Senate Appropriations Committee, Washington, DC.*

DEAR SENATOR COCHRAN: We are writing to urge you to support legislation to protect database against piracy soon to be the subject of the House-Senate Conference Committee and the Digital Millennium Copyright Act (S. 2037). Though this legislation is in the House version (Title V) of the Digital Millennium Copyright Act, it is our understanding that Senator Hatch has drafted a Senate response as a result of negotiations with all parties. We expect that this too will be acceptable as is similar legislation S. 2291 introduced by Senators Gramms, Helms, Cochran, and Faircloth and about which we wrote you on July 23, 1998. What would not be acceptable would be failure to act on this legislation this year. We must provide protections immediately for the time, money, and energy companies expend creating databases to assure that the databases vital to agriculture will continue to be timely and accurate.

Nowhere is the continued access to timely, accurate, and comprehensive databases more important than in the agricultural sector. Databases contain information that is essential to farmers in making the best possible choices. From initial production decisions regarding soil conditions and crop yields to the final determination of prices according to the latest market conditions, farmers rely on current and thorough information.

With the vast advances in technology, farmers are increasingly dependent on the databases which have played an integral role in the industries growth for decades. A prime example is precision farming, in which a computer relies on databases to determine the necessary inputs in order to achieve the optimum crop yield. By combining information in various databases, such as soil moisture patterns and county soil type data, agricultural software packages offer growers field mapping, precision soil sampling and testing, and variable rate and blend applications, that will result in increased productivity.

Equally crucial are those databases that provide wholesale prices, consumer prices, market demand, and consumption. Information is also crucial for risk management. As U.S. farm policy shifts toward freer market principles, futures markets offer farmers a risk management tool that is likely to assume greater importance. These markets are based primarily on information, regarding supply and demand, prices, margins, etc. The more accurate information available to market participants, the more efficient the system, and less losses suffered by buyers and sellers.

The technology that has become so important to agriculture now threatens the viability of the information which so much of agriculture depends. A number of our databases have already been threatened. We urge you to act in our best interests and to support all efforts to ensure that the Digital Millennium Copyright Act is enacted with provisions protecting database against piracy.

Sincerely,

AGRICULTURAL RETAILERS ASSOCIATION,
 NATIONAL CORN GROWERS ASSOCIATION,
 NATIONAL COTTON COUNCIL,
 NATIONAL ASSOCIATION OF WHEAT GROWERS,
 NATIONAL CATTLEMEN'S BEEF ASSOCIATION,
 NATIONAL MILK PRODUCERS FEDERATION,
 NATIONAL PORK PRODUCERS COUNCIL,
 NATIONAL GRAIN AND FEED ASSOCIATION,
 NATIONAL GRANGE,
 AGRICULTURAL PUBLISHERS ASSOCIATION,
 AMERICAN CROP PROTECTION ASSOCIATION,
 AMERICAN FARM BUREAU FEDERATION,
 NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS,
 AMERICAN SOYBEAN ASSOCIATION.

Mr. COBLE. Thanks to you all for complying with the 5 minute rule and for the members of the subcommittee for having equally complied. We're in pretty good shape timewise.

Mr. COBLE. I have confirmed with Mr. Berman, the gentleman from California, we have concluded that we probably will do a second round of questions because of that. So let's move along here

and we'll shoot for a second round of questioning as well. Thank you. If you will, folks, keep your questions as brief as possible because of the time limit.

Ms. WINOKUR, do you use personal and/or private medical information in developing your collection of information without authorization of the patient?

Ms. WINOKUR. No. We actually use no patient information at all in our databases.

Mr. COBLE. There are, in fact, legal obstacles to such activity anyway, are there not?

Ms. WINOKUR. Yes.

Mr. COBLE. How would this legislation affect the use of disseminating private medical information?

Ms. WINOKUR. I don't think it has any impact on it but I'm not an attorney so I can't really address that.

Mr. COBLE. That's my conclusion, that it doesn't.

Mr. Neal, you indicated that the current intellectual property framework protects only expression and not investment. Now, is the protection of trademarks not an intellectual property operation, number one? And, number two, how do you respond when I say that in America we have a long history of rewarding investment lest you have nothing to share with your patrons. How do you square that question with your comment that it only protects expression?

Mr. NEAL. I think our concern in the library and education community is the protection of appropriate use. We currently invest in excess of \$2 billion a year on materials for our users. We do not seek information for free. We understand that unauthorized copying can lead to piracy. We believe legislation which prevents piracy is appropriate. We feel that people have made investments in database creation and distribution and need that protection but we also have to have that downstream ability to use that information for purposes of using new expressions of research results and new contributions to the work of the education and research communities.

Mr. COBLE. Mr. Neal, all of the library associations you represent today are not non-profit, is that correct? They are not all non-profit?

Mr. NEAL. There are libraries represented in those associations that do serve for profit organizations. That would be primarily, but not exclusively in the Special Libraries Association.

Mr. COBLE. Thank you, Mr. Neal.

Professor Lederberg, you indicated that technological protections are available to protect databases. I'm inserting words in your mouth on that. Well, let me do that. [Laughter.]

You can remove those words.

Do you believe that encouraging holding up data through that means rather than or in lieu of providing legal protection is the best course?

Mr. LEDERBERG. I think it's very important that there be legal as well as technological protection on databases. The issue is how all encompassing they should be.

I think none of the Academies or the AAAS has anything but sympathy for prevention against wholesale piracy. I think we are concerned that in our zeal to remedy those egregious crimes that

we also carve out new rights in tiny portions of the database in small collections of facts, which is the grist of what scientific activity is all about. I just want to make that distinction.

Mr. COBLE. Let me work in one more question before the red light.

Mr. Kirk, if you will, speak to in your opinion what might occur or what might result to American owned collections of information overseas if the Congress does not adopt this legislation, A. And, B, do you think that we will jeopardize any reciprocal protection offered by members of the European Union by not adopting this legislation.

Mr. KIRK. Mr. Chairman, I think that we put at risk American databases, perhaps not the large companies that can have a European presence but all the many small database creators in this country that can not afford to have a European presence if we do not adopt a protection for databases that's considered comparable to what the EU has.

I would say that having dealt with those lovely people from the European Commission for a longer part of my life than I would have liked I will tell you that they will stop at nothing to spread the particular type of approach that they have on a reciprocal basis.

I think, going to a question that Mr. Pease asked earlier, in WIPO nothing is likely to happen in WIPO but that does not mean that nothing is likely to happen period. We are making a choice by doing nothing if that is the choice we follow. We're making a choice to allow the rest of the world to adopt the European model and I'm not sure that that is the direction that we would wish to go in.

Mr. COBLE. Thank you, Mr. Kirk.

Mr. McDermott, your testimony indicates that realtors have won their legal cases against pirates due to copyright law. Devil's advocate question: why then would you be interested in protections offered by this legislation?

Mr. McDERMOTT. Mr. Chairman, although the courts have helped the Realtors in past cases they were lengthy and expensive and they have done so where the whole of the listing is pirated rather than where specific sections such as addresses or owner's names were involved.

They held that the database was protected by current law only because of the market information and the abbreviations used that are unique to realtors were contained. We think that's a rather thin protection in terms of the database as a whole. In future court cases that would, in fact, look at it more specifically, could endanger the entire MLS system as it is.

We think that seeking protection in this legislation gives us much more ability to accomplish our major goal. And our major goal is not to make this data more complex and harder to get to. It is to make it an orderly market system that allows the consumer to participate in the real estate market at a greater level of intelligence than they've had before.

Mr. COBLE. Thank you, sir.

I have a couple more questions but I'll reserve those for my second round.

The gentleman from California.

Mr. BERMAN. Thank you very much, Mr. Chairman.

I'd like to sort of just do some public musings about some of the issues that have been raised and get your reactions and ask some more specific kinds of questions in the final round of questions.

But let me just say additionally that your testimony has been really interesting. There does seem to be a little schism here that has not been breached.

Although I would disagree with Mr. Duncan regarding the administration. I did not view the administration as fundamentally assaulting the principles of this bill. Now, Dean Neal, he says 'We on behalf of the libraries agree with many of the administration's criticisms' but the solution that you propose, this proposal that's out there somewhere—I guess this is what Senator Hatch might have been giving as one of the options—seems to me so far beyond what the administration is saying that at some point, not right this second, but I'd be interesting in hearing from Neal, Lederberg, Phelps deal with the notion of what's wrong. Why is Mr. Duncan inaccurate?

You're saying 'Oh, there well could be a problem here and we should come right out and legislate that an exact replica duplication of a compiled database is a horrible act and nothing else is.' because, I mean, I don't know whether it's protected by copyright or not. But it's not much of a deterrent to the underlying rationale for the bill. So I don't view that proposal, if that's what is meant by that proposal, as a serious alternative proposition that will accomplish making the universities and the libraries comfortable, which I care about very much. I don't think that bridges the gap at all.

On the other hand, for the proponents of the bill the argument about what the Europeans are doing—as a general proposition if this is a bad idea the fact that we need to do it because otherwise the Europeans won't give protection to something that we don't think is worth giving the kind of protection to that you want is a bit of a bootstrap argument.

So I think the threshold question is do the benefits of establishing this appropriation outweigh some of the costs. I just want to ask that.

And then let me ask one specific question. Ms. Winokur, the Physician's Desk Reference, we all remember that. That's where we found out—that's where we all ran to find out what certain things that people were lying to us about were really about. [Laughter.]

Mr. DELAHUNT. Would you expand on that, Mr. Berman? [Laughter.]

Mr. BERMAN. It's been around a long time. I'm curious, is there a competitor to that that exists now or is there such an advantage in the original compilation of data that if we apply something like this bill you almost become a monopolist? You can jack up the prices, you can do anything you want because somebody else going through all that is like being the second person to lay the cable wire, it ain't going to ever happen. We're not going get a second cable system in the area because nobody can go through that expense, everybody's hooked on the first one.

Then one final point and I will let you use whatever time the Chair will let you use to answer my question. Some of these points, if you have any responses—and I lost it here.

Mr. COBLE. It's a senior moment, of which I have many. [Laughter.]

Mr. BERMAN. Yeah, it's a little bit in the old days. A library before the Internet, digital world you bought the Physician's Desk Reference and all kinds of people came in and read it. You paid for that one copy and that's it. But this is a different world and that's probably what's motivating some of the feel for protection. Because if you can get that Physician's Desk Reference out there on the Internet and everybody can get it the next copy may be the last copy they sell because who else is ever going to want to buy it? Isn't our new technology creating a new need here that makes the old analysis of what libraries and universities are about a little bit outdated?

Thank you.

Mr. COBLE. Thank you, Mr. Berman.

Mr. BERMAN. Any reactions to any of that stuff? [Laughter.]

Ms. WINOKUR. Just on the Physician's Desk Reference. It is available on the Internet. We just don't want people to be able to take the whole thing and republish it. It's available for free to physicians and for a fee to others on PDR.net. Anybody can go and look up anything they want in the Physician's Desk Reference. So the question is commercial harm. You know, where someone can just take the whole thing and republish it.

And there are actually competitors who have done similar work, where they've gone to every single pharmaceutical company and to get their information. There is no monopoly, to answer your question.

Mr. DUNCAN. Mr. Berman, if I could address a few points. In all fairness, there was a big step forward today in the administration's testimony.

Mr. BERMAN. Someone who looked like you said something different a little while ago. [Laughter.]

Mr. DUNCAN. I understand. They're saying they generally support database protection, generally. That's a major step forward in the administration's perspective.

I have not been able to read in detail their 50-plus page testimony. My suspicion is, as has been the case in the past, that the general statement of support is undermined somewhat by many, many concerns that are expressed. Those concerns seem to have been echoed a lot by people who are clearly opposing this legislation today. That's why I was suspicious about how much substance there was perhaps behind the general support.

We look forward to working with the administration. We're glad they're coming out in favor of the bill this time around.

I'd also like to address the issue about the EU. The industry does not want to have a database law in the United States simply because the EU passed a directive. We have our needs, I think, because of a lack in U.S. law. But I think, as Mr. Kirk pointed out, the longer we wait to do something here to address the U. S. problem in an adequate fashion the more likely we are going to have only one model out there. That would be a model I think that

would be preferable to the industry if we had our way. We are trying to be helpful and responsible in crafting a fair and balanced piece of legislation here.

Mr. NEAL. Mr. Berman, a couple of thoughts as well.

Libraries are being transformed by electronic and Internet based information. We work very closely with publishers to negotiate licenses and contracts that advance the needs of our users but protect the interest of publishers. So I think there's a new framework in which a lot of the protections are taking place through the types of contracts and licenses we sign.

We realize there is potential for abuse. And in addition to the contractual arrangements we are increasingly seeing technological measures introduced that limit the appropriate use of information. So we're responding to the digital environment with creativity and approaches that make sense in this environment.

In terms of the issues of the global nature of this legislation, I did participate as a member of the delegation at the WIPO treaty negotiations in Geneva. I believe that based on that experience and conversations I've had since, we need to be sure that we're not too focused on the issues of global harmonization in the creation of our laws. We need to create a law that works for us and that is responsive to the Constitutional and legal traditions we have in this country. Obviously we need to be concerned about the economics—global commerce and economics but we need first, I believe, to be responsive to our Constitutional traditions here.

Moving on to your first point, the examples that have been cited here and in other testimony have really focused on the piracy of a database or substantial portions of a database. And I believe the library and education community is taking the position that we want to focus on those issues of piracy. We want to make sure that the interests of publishers are protected and that that type of parasitical behavior is stopped.

We, in the library community are probably one of the largest consumers but we're also one of the most voracious protectors of intellectual property. We work very hard in our license agreements to create balance and then educate our users, faculty and students and researchers what the appropriate use should be. In the library community we've been very focused on this issue and we want to stop the parasitical behavior as much as the publishers do.

Mr. COBLE. Mr. Neal, I think the bill pretty much tracks what you're saying. Maybe I'm missing something. We'll revisit that another time around.

The gentleman from Indiana.

Mr. PEASE. Thank you, Mr. Chairman.

Mr. Chairman, I find myself in flashback to my days as general counsel of the University, at Faculty Senate meetings. Generalizations are unfair but usually the research and creative staff wanted compensation or credit for any work that was done and the librarians wanted to give everything away to everybody for the asking. Here we are again. But we managed to work it out there and I'm sure we'll work it out here too.

I only have one question and I am sensitive to the time. Mr. Kirk, I've heard several folks on this panel say that the protections afforded under this legislation were unprecedented. How do you

react to that? Before you start, I guess implicit in that is the idea that something new is bad, but if you could respond to that I'd appreciate it. [Laughter.]

Mr. KIRK. I'm not sure what the framework would be for someone to make the statement that it's unprecedented. Certainly you've got State misappropriation laws that address acts that fall in this same general area, though perhaps not in the same way. You've got the implementation of the European directive by the member states of the European Union. Some of the Nordic states already had a cataloging regime in place so that they had a very small step to take when they implemented the Directive. So I think there are bits and pieces of this all around the globe.

I think the point that you made in the second part of your question, however, is that it's not necessarily bad that this doesn't exist. I think the problem we're looking at is we lost 200 years of jurisprudence protecting databases with *Feist*. That left a huge hole. The question is how should that hole be filled. That's what we're struggling here to do.

And I think in response, as Mr. Duncan said with regard to the question of what's going on in Europe, it really is a question of moving quickly because the die is going to be cast on the European model. If we don't move quickly, if we take our time and ultimately move later, then we're going to be locked into that model by and large. So I think that is the emphasis. Certainly we're not talking about doing something merely because the Europeans are doing it.

Mr. PEASE. Thank you.

Mr. Chairman, I understand we have a vote and I'll yield the balance of my time.

Mr. COBLE. I thank you, gentlemen. We have a vote on the floor. You all stand easy, we will return. We'll start with Ms. Lofgren when we come back and we'll go into the second round and get you all out of here for a late lunch, hopefully. We'll be right back.

[Recess.]

Mr. COBLE. Thank you, folks, for understanding. We're ready to go now and I am pleased to recognize the gentlewoman from California, Ms. Lofgren.

Ms. LOFGREN. Thank you, Mr. Chairman.

Before I ask any other questions I'd like to extend an invitation. All of the witnesses have been very helpful so I hope that no one will be offended by my invitation—

Mr. COBLE. If you'll suspend, Zoe, I won't penalize you. I'll give you the same courtesy I gave me, you won't be penalized for this timewise. So go ahead, Zoe.

Ms. LOFGREN. I sincerely hope that no member of this panel will take offense because I want to single out Mr. Lederberg. It's not every day that a Nobel Prize winner comes to testify before a humble subcommittee of the House. It's really a great honor to have him here.

I noticed, as we ran out of time during Mr. Berman's questioning, that Mr. Lederberg wanted to say something. Before I ask my own question, let me invite you to respond fully to Mr. Berman's question.

Mr. LEDERBERG. Well, I just wanted to comment on what are the extraordinary new property rights that the legislation would generate.

This may be an unintended consequence but as I understand them it would provide for a database generator a property right in portions of the database. It doesn't have to be the entire collection. It does not have to be the presentation, the appearance. It would also go to the actual content of the facts or ideas represented there.

Now, we have a system for doing that which is provided by the United States Constitution, it's called the patent system. I'm in the midst of applying for two patents. It's an arduous procedure. It's not always certain of success. It's very carefully scrutinized and well it might be, because if it is successful it does confer very substantial rights of property, of exclusiveness and so on.

I am concerned that the bill, unless very, very carefully qualified—and this applies to for-profit as well as not-for-profit uses—will allow the bypassing of the patent system for intellectual property protection on factual material.

Ms. LOFGREN. Can I follow up? If I understand you correctly, let's say, for example, you compiled at some great expense and effort a database of genetic information that you wanted to protect. Your concern would be that the protection in the bill would be so broad that if you went to one space on one gene that that would also be protected when, in fact, it shouldn't be?

Mr. LEDERBERG. Precisely. Now, I believe that there are exceptions indicated but there are so many and's, if's and but's about it, so much uncertainty about them I think that it would have a chilling affect on research people undertake in that arena and also encourage people who now publish their work clearly to think 'Oh, I could make an extra buck, maybe I can license access to that information in this way.' I don't think that was what was intended by database protection. So this is my concern.

Ms. LOFGREN. Let me ask, if I may, Mr. Lederberg, whether you have had a chance to review the written testimony of Mr. Pincus from the Department of Commerce? If not, whether you would be willing to do so. I know, in addition to your scientific background, you also have a legal background. I would very much appreciate your take on the various issues outlined by Mr. Pincus.

One of the things that I think is interesting, and I'm not sure what I think about it yet, relates to the sole source issue referenced by you Professor, and others on this panel. When Government originates the data, compiled from various sources, the issue, as I understand, is whether you are locking up information that the Government has freely provided at taxpayer expense. I don't think anyone would be in favor of such a restriction.

What the Commerce Department suggested as a possible remedy for this is, if you're going to compile and utilize data that is freely available from the Government, that you would have an obligation to advise the Internet public where they could go to get that data from the Government. This would remedy this potential difficulty in the database bill. Do you think that's sufficient?

Mr. LEDERBERG. I haven't had an opportunity to study that but if you'll permit me to consult with my truly learned brethren I'd be very happy to provide a written response.

Mr. DUNCAN. Ms. Lofgren, if I could comment on that?

Ms. LOFGREN. Certainly.

Mr. DUNCAN. Since SIIA represents probably the vast majority of publishers who add value to Government information, I think there's been some fuzziness about this issue.

I think one of the things it's important to remember is that there are a number of laws already on the books that regard the access, principles and dissemination of information. One was the Paperwork Reduction Act of 1995, which was just passed a few years ago, anticipating an electronic, digital delivery of Government information, and makes specific reference to the need for an active private sector, value added service industry out there.

I have not had a chance to review Mr. Pincus's testimony in detail, as I mentioned a few minutes ago, but I do think that a requirement to have value added publishers footnote sources of Government information would be counterproductive to their market. In essence, that would be an invitation for customers to not use their products, to go someplace else and find that information.

Ms. LOFGREN. Why would that be?

Mr. DUNCAN. Again, I would want to look in detail at what he is suggesting but if a Government information value added publisher has the sources there in his publication his purpose is to get a fair return on that investment for him and his shareholders. To footnote the source of the Government information for the general public to go back to would serve no purpose in terms of his being able to make money off his value added product. They would simply go to the Government source to do so.

The Government seems to be doing a good job in many cases of putting things up on the Net—

Ms. LOFGREN. If I could interrupt your response, only because I have limited time to ask questions.

We're trying to sort through this interesting intellectual problem that is a commercial problem as well. My guess is there's a lot more commonality among the apparently argumentative or adverse witnesses than might at first blush appear to be true.

So let's consider an example from the real world. Let's say you've got the human genome project. The human genome project has been funded entirely by the United States taxpayers. Right now the results are posted. I mean they're free for the world. And the idea is that all of that information is going to spur further information and further research to the benefit of mankind, womankind, humankind. So it's out there.

Now, if you were a data compiler—there's also information out from all over the world on that. If you were a data compiler and took what was posted at Lawrence Livermore Lab and then what was posted at Stanford and then what was posted someplace else, put it together, and then claimed in some manner, because you had put that together, that you owned it in a way, then you would be frustrating the taxpayer's purpose in making it available.

On the other hand, we do want to provide a financial incentive for people to compile information in ever more useful forms. So I'm searching for a way to accommodate these two legitimate goals.

Mr. DUNCAN. Well, I believe the human genome project also contains private sector data that the private sector has donated into

that project as well. And I think that publishers have a long tradition and history of providing their data for those kinds of purposes.

I believe, for example, in terms of the metanomic database—

Ms. LOFGREN. If I could interrupt—what difference would that make if a private sector company donated its data to the Government to be included with the other data that was generated by the Government to be posted for free? What difference does that make?

Mr. DUNCAN. I thought your point was that the publishers are trying to lock up all this data and my response was that that's not necessarily the case. That when there is a need and a public purpose for providing data to achieve a common public goal publishers have—

Ms. LOFGREN. I'm not against the private sector. I love biotech firms that are out inventing things. That's not the issue. The issue is how do we provide an incentive for people to accumulate information in a way that's useful and advances knowledge. We need to provide financial incentives for that purpose—and I think there's broad agreement on that point—without frustrating the purpose of the taxpayers who funded, in some cases at great expense, the component parts of that information that is freely available.

Let me ask Professor Lederberg if you have a comment because I know you're familiar with the example I used.

Mr. LEDERBERG. I think you stated that quite fairly. I would stress the importance and our concurrence of protecting value added services. I think they perform an indispensable function. And no one for a moment has questioned the need for legislation to protect from wholesale piracy on those databases, and that includes the value added aspects of presentation and so forth.

It's the over-reach that the language of the bill seems to permit. I'm not saying every publisher is going to exploit it overnight but it offers the opportunity of that kind of over-reach of encompassing property rights in elements of data and elements of knowledge, most of which until now has been part of the patent system, and that is a matter of concern.

Ms. LOFGREN. My time has expired, Mr. Chairman.

Mr. COBLE. The affable gentleman from Massachusetts, Mr. Delahunt.

Mr. DELAHUNT. Thank you for the description, Mr. Chairman. I presume it was because of my laudatory remarks directed toward you earlier.

Mr. COBLE. If the gentleman would yield, I've been commenting on his demeanor forever. [Laughter.]

Mr. DELAHUNT. Just an observation. Professor, you just said that no one disputes that a problem exists—and I say this to everybody on the panel—really with few exceptions when you're here, as we are, behind this dais and we listen your presentations in many ways overstate. You know, it's either the end of Western civilization and its ability to conduct research, Mr. Neal, or, Mr. Duncan, it's the end of an industry that is of great consequence to the American economy. And then when we pose our questions you sound so reasonable. [Laughter.]

Mr. DELAHUNT. It's an amazing transformation. It truly is. And I think in some respects it's unfortunate because, you know, people in trade journals sit here and those of us who are accustomed to

the vagaries and vicissitudes of public life know that a quote and a statement that you made will begin to define the public perception of really what is occurring here.

When I listened to you, Mr. Neal, at first I thought there just is nothing that I can see that would meet the needs or the concerns that you expressed. You know, we're all very intelligent on this particular subcommittee—[Laughter.]

Mr. DELAHUNT. That's why we call it intellectual property. [Laughter.]

Mr. DELAHUNT. But the reality is that no one understands those issues better than the users and the creators.

Do you ever talk? Do you ever communicate? Do you ever really sit down and discuss your issues and areas of potential agreement?

I'm probably venting some of my own frustration here because there is a problem and, you know, it's Mr. Henderson that's got the problem.

I mean, if I'm correct, Mr. Henderson, you alluded to the fact that there are some products that you don't want to post on the Internet for fear that it will be pirated from you which, again, diminishes, if you will, the body of knowledge available to the public. And yet he has a business, obviously.

This is his livelihood. And I take it he supports many other employees as well as providing information that's essential to a key segment in our national economy. I mean, you know, really.

Professor?

Mr. LEDERBERG. I'm advised that the Academies will be conducting a Government/university/industry forum to try to bring together those parties, just a conversation.

Mr. DELAHUNT. I think it's critical.

And, Mr. Chairman, I think that those of us on this committee, maybe even a smaller group, ought to sit down with you and listen to you on an informal working basis. Then if you can't resolve it it's up to us to resolve it.

Mr. NEAL. I would also mention that several weeks ago, there was a meeting of the National Research Council that brought together individuals from the various communities to really build the conversation.

Many of us participated in that meeting.

Mr. DUNCAN. Not to be completely outdone, Mr. Delahunt, the industry has been trying to get legislation passed for three and a half years now.

We have extended invitations continuously for this kind of a dialogue.

Mr. DELAHUNT. Mr. Duncan, I'm sympathetic to your predicament.

Mr. DUNCAN. We thought, actually, that the negotiation process that was undertaken in the Senate last year was making progress.

I think the difficulty is that at the end of the Congress, trying to get the bill in as part of another very controversial step at the time, and that led to a breakdown at that point.

As I said in my remarks, we do want to work to make sure this happens, and we do believe that compared to what the industry would prefer to have, compared to what this legislation began as

in the last Congress, it has been mainly, from our point of view, us compromising to get legislation done.

That's part of the frustration, I think, that you will hear from industry from time to time.

Mr. DELAHUNT. And believe me, I think for me today, the most telling testimony was the testimony of Mr. Henderson, because it is a very real life issue here.

Mr. Neal, I respect your concerns, and I also understand the desire to have very bright lines, so that there is no concern on the part of the research community or the libraries that have exposure to litigation or that they may even be subject to some criminal sanctions.

But, I mean, the reality is, our system of law is such that we pass a statute, and then we have court decisions, and, yes, there will be litigation. And that's simply the process.

We have a common law, and that's what courts have done in terms of copyright law. I guarantee you, unless it's an egregious case of piracy, I'll state it right here, there will not be a single librarian or researcher who will go to jail. That's simply not the real world.

What we have to do is understand. I speak to the communities as your representative.

I think it's really important that the constituencies that you represent understand that there are some areas that can't be addressed through legislation.

May I have an additional 30 seconds?

Mr. COBLE. You may, indeed.

Mr. DELAHUNT. And we've really got to be reasonable because this is just too important.

If Mr. Henderson decides to make an investment in an additional business, or to move out, we're going to be diminished by not having that data that he is now making available to American farmers.

And I dare say that that would be true in any segment, Professor, including medical research—I mean, medical research is predicated on having up-to-date, current, accurate, information available to it.

I dare say that many of the medical advances that we are now speaking of are predicated on this kind of information.

Unlike 20 or 25 years ago, you don't have to be going through books all the time to do it. So we've probably accelerated our knowledge of disease and how to treat it because of the advent of the information age and the database and the need to maintain it in an accurate and up-to-date way.

It is absolutely essential to humankind. Of course, I want everybody to make a living, but in my opening remarks, I said this is about a lot more than just dollars and cents.

I see my time has expired, and I didn't have a chance to—

Mr. COBLE. We'll have more time.

The bell has rung, but we're going to go through a very quick second round, folks, because I think this is important to us.

I will extend what Mr. Delahunt said. I think, clearly, as long as the librarians and the members of the scientific community, and the members of the research community, are acting within the

scope of their duties, they're exempt from criminal liability. That's laid out in the bill.

Ms. Winokur, your facial response indicated to me that you wanted to insert your oars into the waters regarding Ms. Lofgren's comment to the Professor. Did I read you correctly?

Ms. WINOKUR. Yes. [Laughter.]

Mr. COBLE. Proceed.

Ms. WINOKUR. We are both users and producers of scientific information, and in your comment having to do with the Government's information, whether it's the Human Genome Project or anything else, any user, including us, could go back to those original sources of literature or scientific study and do exactly what the database producer does.

I don't think there is anything in this bill that limits anybody going back to those facts and doing it again. This doesn't in any way tie up any facts, because we right now do that same thing.

We go back to the original medical literature in order to compile our opinions or whatever on treatment, et cetera. And it's only—it's the synthesis and compilations that we do which we have concern about, not the original facts.

Mr. COBLE. I'm glad I read you correctly on your response.

Folks, I don't mean to be presumptuous with what I'm going to say, because I'm not directing it to this panel. You all are far better versed on this subject than I.

But I think some confusion has surrounded this bill in that a good number of people continue to refer to the protection it provides as property, not unlike copyright.

There is no property right in this bill. In this bill, one must cause harm to a producer's market before liability arises.

Mr. McDermott, you will appreciate this analogy, I am confident. I own a piece of property. I own half of a piece of property and some third party trespasses.

They don't have to inflict harm upon me to be excluded if I don't want them there. That's property.

In this bill, a wrongdoer must impose harm upon the producer's market before it is activated. I think that's been lost in the eyes and ears of some of the people who have come to the table.

Mr. Phelps, I want to thank you for what I will call a constructive approach, concrete suggestions for amendments.

I think the university community has been very helpful in our quest for balance, and we're not going to slam the door in anybody's face. We're going to try to get through this.

What we'll probably end up with is something about which none of you is ecstatically happy, but that perhaps everybody can live, not uncomfortably with it. That's what I'm shooting for.

Professor, let me ask a question to you, if I may.

What mandatory licenses or other limitations currently exist that require sole-source providers to make data available on reasonable terms and conditions, and how would that be changed by this legislation?

Mr. PHELPS. You're asking me to venture an opinion?

Mr. COBLE. I'm sorry, I meant Professor Lederberg. I'm sorry.

Mr. LEDERBERG. I think I'm going to have to ask Dean Reichman to assist me on that if I may.

Mr. COBLE. Mr. Phelps, I'm not closing you out, but do you want me to repeat that question?

Mr. REICHMAN. The issue is hotly contested at the moment in the context of the discussions concerning Article 2[b] of the Uniform Commercial Code, which would establish general laws of licensing dealing with computerized transactions and information products, including databases. There, a proposal has been made to include such a clause as a principle of public interest to mediate between the preemption clause and the public policy clause, in order to create a new ground that would, in fact, validate 90-95 percent of all standard form contracts conveying data.

It would only allow a court to look at those few contracts that attempt, by standard form means, to change the preexisting balance of private and public interest.

Mr. COBLE. That doesn't currently exist, does it?

Mr. REICHMAN. The National Commission of Uniform Law Commissioners has voted to adopt that suggestion by a vote of 90 to 60 in the current draft. The drafting committee has been resisting implementing the proposal as given, and they're arguing.

We'll have to see what comes out in the next annual meeting. But that's the larger context.

I would add that that is not a compulsory license. To my knowledge, there is no compulsory license on the table.

There is a proposal for reasonable terms and conditions with due regard to the needs of science education, innovation, and free competition.

Mr. COBLE. Which would not be affected by this legislation; would it?

Mr. REICHMAN. If that were adopted, it would run in tandem. It would provide a basis in State law for independently looking at contexts or implementing the right you're creating here.

The question is, how would the right be implemented? That is, the data would be delivered online, the contract is a standard form contract online. What are the terms of this condition?

That clause would say, usually those are valid.

Mr. COBLE. Let me hear from Mr. Phelps before my 5 minutes is up.

Mr. PHELPS. I was merely going to comment. You're out of my range, and you'll have to turn to my colleagues.

Mr. COBLE. Anyone else want to be heard on that?

Mr. DUNCAN. I think, Mr. Coble, the short answer is there is currently no mandatory licensing system.

Mr. COBLE. That was my thinking.

Mr. DUNCAN. And no mandatory licensing system is in place for databases, with the exception of those that may have been involved in some sort of consent decree because the Department of Justice concerns about antitrust.

Mr. COBLE. Thank you, sir. Mr. Berman, the gentleman from California.

Mr. BERMAN. Thank you, Mr. Chairman. I'd love to go on for half an hour with questions to you folks, but that would be a terrible thing to do to the chairman on his birthday, so I'll just ask a couple of questions.

Before I do, I believe Professor Lederberg wanted to comment about something we were talking about in my last round, and because the time ran out, he didn't get to.

Mr. LEDERBERG. They gave me the opportunity, thank you.

Mr. BERMAN. Well, I didn't hear it, but she'll tell me later. [Laughter.]

Mr. BERMAN. I want to get down to this—again, it goes back to—you're the first one to sort of raise it with me, this whole issue of we have many other concerns that the administration expressed, but then the solution being, this draft of the Database Fair Competition and Research Promotion Act, a draft that I have not seen.

But as I am told, the general prohibition is that it is unlawful for a person to duplicate a database, collected and organized by another person in a database that competes in commerce with that other database.

There is no definition of duplicate. I have a common sense definition of duplicate, which is an exact copy. I mean, not to—I mean, it duplicates, to me, is what it means.

Maybe that isn't what the authors of this proposal meant it to mean, so, in addition, I guess—am I wrong about that?

Is that what you want to be the heart of the law that we should pass as a substitute for this bill?

Mr. NEAL. I believe the issue is one of where we start in developing legislation. Do we start from the basis of a broad prohibition, or do we start from the basis of a narrow prohibition?

Mr. BERMAN. So this is a bargaining position?

Mr. NEAL. Yes, it starts from a narrow position.

Mr. BERMAN. It's a bargaining position.

Mr. PHELPS. Mr. Berman, if I might, my view, and those of my colleagues is that we are not talking about duplication as the only act that should be prohibited.

We believe that quantitatively and qualitatively substantive reproduction and dissemination is the important issue.

And when that harms primary markets, that's the most important part about this, when it creates a market substitution.

Mr. BERMAN. Is that in this draft?

Mr. PHELPS. No, that's the type of language that I would like to move forward. I've had some suggestions.

Mr. BERMAN. So that goes beyond this draft.

Mr. PHELPS. I'm not talking about the draft, no, sir. I'm just simply—I want to make clear that we are not talking about duplication as the only prohibited act, but rather economically important things that create the opportunity for market substitution and harm the initial investment.

Those, we are very clear, should be prohibited, and we think it's very important to have that protection for database producers.

As many of you have noted, we rely heavily on these databases in our own research and scholarship and teaching, and we would not want to stifle that market.

We are simply more concerned about the ability to use the currently worded legislation to narrow down our ability to use even a small parts of these databases. That's our concern.

Mr. BERMAN. Do the universities and major libraries see themselves as having a position fully identical to that of other members

of your coalition which are involved in the commercial dissemination of database compilations.

Mr. PHELPS. I'm not sure we could say fully identical, Mr. Berman, but I think we share a lot of values on that.

Mr. BERMAN. If the committee comes to a conclusion that there are things to be done to protect a lot of what the universities and the libraries want to maintain, but it doesn't go as far as some of the commercial distributors of these databases want, where are you going to be?

Mr. NEAL. My primary interest is to be able to provide an educational and research environment at my university that is high quality and successful, and that is my primary mission, to support that.

Libraries across the country are primarily interested in that mission.

Mr. BERMAN. If this legislation protects that mission?

Mr. NEAL. That's my core value, yes.

Mr. BERMAN. And it doesn't matter what other parts of your coalition think about it?

Mr. NEAL. We have shared values. I don't believe we're coming to this with totally different perspectives. I think there's a common core that we're trying to advance here.

Most libraries would say the ability to support our users in their work is what we're about our mission.

Mr. BERMAN. You know what I hear a little bit? I hear the WIPO revisited, a coalition of people who don't like or didn't like the WIPO implementation legislation, whatever we call it now, the digital millennium copyright act or something or other.

It's a Republican euphemism. [Laughter.]

Mr. BERMAN. Band together in lock step with the libraries and the universities as the out-front ones, but in the end, it's very illusive, hard to deal with, with some of the issues they don't want to deal with.

That's less of a question than just a comment.

But I'd like to ask the proponents of the legislation one last question. And it was the proponents who talked about it like this.

Pull this down to some very concrete terms. Let's take some publisher who puts together a list of all the restaurants in Southern California.

And they have maybe the addresses, the phone numbers, and the descriptions of those restaurants.

Some other company wants to do a list of Italian restaurants in Southern California. They don't use any of the descriptions. This is a small part of that database, in toto.

And they do their own value-added work with descriptions and ratings of the restaurants and things like that.

Should that be prohibited? They take this original compilation and utilize that, and other things, to find the Italian restaurants.

Mr. HENDERSON. If I may, speaking as a real world publisher, I think that system already exists, and the only question, if I were publishing the overall Southern California directory, I would expect from the other person saying, I want to use your material.

Mr. BERMAN. What would you say when you got that call?

Mr. HENDERSON. Probably, so, let's work out an arrangement.

Mr. BERMAN. You want to license them?

Mr. HENDERSON. License them, work out a marketing agreement, whatever, where we can work with something.

Mr. BERMAN. So, in your mind, that database is—you can't extract this relatively small subset of that information as part of a separately, value-added bit of information to do a separate commercial guide?

Mr. HENDERSON. We went through the discovery process, hired staff and put together the marketing. Certainly, I do believe—

Mr. BERMAN. I'm just curious. I can understand.

Mr. Duncan?

Mr. HENDERSON. If I may finish my point here, the protection that we need to have, that I'm here seeking is that we're dealing in a whole other world where my friend who had worked out a marketing arrangement to put out the Italian directory could then put it on his website, unless he told me, and e-mail it to his 5,000 best friends out there. That is a whole different world that what we are used to dealing with.

Mr. BERMAN. I know. I referenced that earlier.

It is a different world.

Mr. DUNCAN. Mr. Berman, I think Mr. Henderson's answer shows how far the industry has come to get to where we are today in terms of trying to get this legislation in the practical business world. That's the attitude of database publishers.

We went out, we did it, we worked for it, somebody else wants to use it, to offer a product on the market, and they ought to come to us first and ask permission for that use.

I think that the situation you're describing, as the bill is currently written, could possibly happen without that procedure going forward.

That's one of the reasons that database producers are so concerned about where we began, where we are now, and where we may have to go before the law is passed in this country.

Mr. BERMAN. You think the bill is all ready?

Mr. DUNCAN. It's possible. It depends on how much was taken, whether it harmed the market for the original product. Those questions have to be worked out in cases that may be brought up under this bill.

Mr. BERMAN. Mr. Chairman, maybe we should turn this into a new compulsory license. [Laughter.]

Mr. COBLE. The gentlelady from California.

Ms. LOFGREN. I'm going to be quick because Howard and I have been summoned to the Immigration Subcommittee so they can make a quorum and report out their bill, so I'll just do two things:

First, to ask all of the witnesses present, who have an interest in pursuing this further, to take a look at the Department of Commerce testimony and to offer, in writing, their comments to members of the committee.

I'm not saying I agree with everything in that testimony, but I think it's interesting. The administration is trying to play a positive useful role, at least I hope they are, at least I think they are.

I thought for a second they were going to do that in encryption. [Laughter.]

Ms. LOFGREN. Secondly, I was interested in your comment, Professor Lederberg, about the interplay between portions of data and patent law.

I want to make sure that I understand the point you were making, as I'm not sure I do yet.

Then, Mr. Kirk, I know, has a sense of history in the Patent Office, and in patent law, and I'd be interested in his comments, after I fully understand your point.

Mr. LEDERBERG. Well, if I understand the legislation, apart from exceptions that have been carved out for critical comment, and sole use, we are very grateful they've been understood, there is still a broader issue about the protection of knowledge claims.

If I were to compile a list of genes in a given section of a chromosome, I would produce a database containing that information.

The factual content of that database would also be covered, and the information that I had provided could not then be taken by others for whatever other use they would want to make of it.

I suggest that that exclusivity of access to new knowledge, invention, and discovery, is the domain of the patent law.

Ms. LOFGREN. Let me follow up, if I may.

Let's say, for example, that they're marching through Chromosome 19, and they're not all the way through, but they've got a lot of stuff out there, and then they've got other people doing other chromosomes.

Somebody goes and then compiles a bunch of this information and puts it online. We're saying that that compilation would be protected if there was a market for it, but you could still go back to Lawrence Livermore and get the Chromosome 19 information you wanted and use it whichever way you wanted if you knew that that's what the source was.

Mr. LEDERBERG. I'm carrying that one step further, and that's why I used the first person. It's quite imaginable that I would have generated the data, and I put them on a database that's the source, and I'd advertise them to the world in this way.

But then there's a no-no that says, no, you can't use any part of it.

Ms. LOFGREN. I see your point. Thank you very much. There was too much of Government information.

Mr. LEDERBERG. And I'm suggesting that there is room for protection of intellectual property of that kind, and it's called the patent system.

Ms. LOFGREN. I see your point. That's a very interesting point.

Mr. Kirk, do you have a comment on that?

Mr. KIRK. I'm not quite sure that I totally understand Dr. Lederberg's comment, in that my approach to this, coming from a copyright viewpoint is, you have the idea expression dichotomy. You protect expression under the copyright laws; ideas are the realm of patents.

But you must have something that satisfies the statutory criteria of patentability, new, useful, non-obvious, et cetera.

Ms. LOFGREN. Let me just make a variation on this. Let's say it's not just research in Chromosome 19, but it's manipulating some part of the genome that results, and that is a patentable thing. You publish that in a database.

I think what the Professor is saying is that you can own, without ever going through the patent process, you can own that. We've been thinking about the interplay between copyright and database, but he's suggesting that we need to also think about the interplay between patent and database, and I understand his point now.

It's a way, really, to control the potentially patentable device without ever dealing with the Patent Office through databases. That's what he's suggesting, and I think we need to think through that.

Mr. LEDERBERG. There are ways of avoiding it if there were robust definitions about the invasion of the market of the original producer. It has to be significant taking, a significant part of the whole database, and then isolated facts could not longer be within that framework.

But whereas there have been hortatory remarks that we're only talking about significant invasions, significant removal from the market, I'm advised that the actual language of the bill does not really provide for that.

Losing one customer or the prospect of losing one customer might be sufficient to be an invasion.

Ms. LOFGREN. If I may, in the point you're making, you're not suggesting the remedy; you just are raising the issue, and I'm glad you have, because this is something I never really thought of. I'm not sure what the answer is, but actually whether or not the marketplace issue was dealt with, and we may have to deal with that for the first amendment issues, anyhow, as suggested by Mr. Pincus this morning.

It doesn't obviate the issue you've raised, which is the interplay between patent and database.

Mr. KIRK. If I might, I think we need a little more reflection on this interplay, because I'm not sure that it exists in the way that has recently been discussed.

With a patent, you are fundamentally disclosing this to the world. And what you cannot do is then take that patentable invention and use it in the way that the patent law precludes you from using it for the term of the patent.

It's a rather different animal, so I'm not sure yet that we're on the same page.

Ms. LOFGREN. I'm not either, but I would appreciate your further thought on this, because I certainly value your expertise.

I would yield back, Mr. Chairman.

Mr. COBLE. I thank the lady. The gentleman from Massachusetts.

Mr. DELAHUNT. Thank you, Mr. Chairman.

I might be wrong—and this is on the point that Ms. Lofgren raised—but on page 5 of the legislation, "Subsection [b] individual items of information and other insubstantial parts," I'm just going to read this for both Mr. Kirk and you, Professor:

"Nothing in this chapter shall prevent the extraction or use of an individual item of information or of insubstantial parts for the collection of information in itself. An individual item of information, including a work of authorship, shall not itself be considered a substantial part of a collection of information."

I am reading this and my interpretation is that the concern that was raised by Ms. Lofgren, and which you have also evidenced, is addressed by that particular provision.

Mr. LEDERBERG. I hope you won't think I'm quibbling, but that then leaves the door open. There are two items that have been mentioned that were put together, so I'm not fully satisfied yet.

Mr. DELAHUNT. Mr. Kirk?

Mr. KIRK. I did not raise the concern, but I agree with your reading. I would just add the last sentence of the same subparagraph, which you did not read, "Nothing in the Subsection shall admit the repeated or systematic extraction."

This, to me, implies that that second item, okay, but a hundred items, no. We come back to the basic point that I had commented on in my written testimony.

This is where I think guidelines, some kind of illustrative examples, to give people a little bit of an idea of where the line is.

You made the comment, and I agree with you, we are never going to get a bright line here. This isn't going to happen.

Mr. DELAHUNT. And, you know, I think it's important to the research community. We do not want to inhibit in any way—when we draft this language, our intention, at least it's my intention and I know I speak for the committee—is to encourage the use of this information.

Again, regarding my admonition of never being able to draw a bright line, I don't know how we do it in terms of guidelines, but I think we've really got to understand what we're trying to do here, and not ask for the impossible or the supernatural. It's just not going to happen.

Let me ask you, Mr. Duncan—and this is, again, based on an observation or a remark by Mr. Henderson.

You know, the Internet is obviously looming so large in our lives now for most people. I don't know how to use it, but I hear about it anyhow. [Laughter.]

Mr. DELAHUNT. That's why I'm on intellectual property.

Mr. DUNCAN. We have a lot of software that can help you, Mr. Delahunt.

Mr. DELAHUNT. You don't know my talents if you say that.

But are there people in the industry itself who feel constrained from putting databases out on the Internet because of the lack of protections, because they feel they are exposed to piracy?

Mr. DUNCAN. I think, generally that is the case in the industry. It doesn't mean that you can't find private sector databases on the Internet.

Mr. DELAHUNT. My question is, I want those commercial databases out in the public domain.

My question is—and I don't know if it can be quantified, but you represent, obviously, a portion of the industry. Are there companies, corporations, individuals, that are simply not doing it because of the lack of what they perceive to be protections that protect their investment?

Mr. DUNCAN. I think that's definitely the case. What I was going to say is that most of those databases, you can access through an Internet site, but you're not accessing them as an open Internet webpage; you are accessing them through a technology that allows

you to then go into their private network and that is how I believe it will remain for a very long time until they feel they have adequate protection against piracy.

Mr. DELAHUNT. As long as we can maintain our state-of-the-art encryption. [Laughter.]

Mr. DUNCAN. Exactly. But that doesn't necessarily have to be exported, that technology, because you're coming to it in another way.

Mr. DELAHUNT. Mr. Neal, in response to questions in your testimony, you state the core value is the availability for use of the research and the library community.

Not that I'm in any way endorsing this, but if Mr. Pincus's approach, which is focused rather on use than distribution, do you find that more appealing or attractive?

Mr. NEAL. I have not read Mr. Pincus's testimony. Wasn't his focus on distribution rather than use? Yes.

Mr. DELAHUNT. I might have misstated it.

Mr. NEAL. I believe that movement in thinking about this legislation is the right movement. I wanted to just echo something you said before.

The library community is not and does not want to be seen as obstructionist or unreasonable. [Laughter.]

Mr. NEAL. We want to create a piece of legislation that can work well in the communities that we serve.

Mr. DELAHUNT. This is what we call personal use of staff. [Laughter.]

Mr. DELAHUNT. It's a good thing Mr. Berman is not here. He's the Ranking Member on the Ethics Committee. That is a prohibited use. [Laughter.]

Mr. DELAHUNT. I'm sorry, Mr. Neal.

Mr. NEAL. I think that in the library community, we work very hard to guarantee appropriate distribution and appropriate use.

And what we want to be sure of is that we can apply any legislation that comes forward well, and interpret and guide our community well in how it understands and uses this legislation. That's why I think we're putting forward questions and issues in terms of definition, in terms of application, raising concerns in several areas, because we want a good piece of legislation, one that can work well in the communities that we serve.

I just want to reemphasize, we want to work with you; we don't want to be obstructionist or unreasonable. We want legislation that focuses on the need of our community.

Mr. DELAHUNT. That's very reassuring. I don't know whether it was you or Mr. Phelps, but one of you used the term, unprecedented protections.

Obviously, they're unprecedented because of the decision rendered in *Feist*. What we are trying to do is to restore at least part of the database protections to what existed before the Supreme Court decision.

So, again, I'll conclude, Mr. Chairman. I just again hope that you continue to have forums and venues for us to work, reach out for the various disparate interests, maybe even in a smaller group than the subcommittee.

I don't suggest that we should become involved in any way in their negotiations but I think we should move quickly and be will-

ing to be open, and at the same time, we should understand clearly that we have a problem, and that this Congress and this subcommittee will address it.

Thank you.

Mr. COBLE. I concur. I thank the members of the subcommittee. I thank the members of the two panels. I also thank the attentive audience for having hung with us.

The good news is, folks, if it wasn't for the lunch break, you'd be here till probably 4:30 or 5.

The subcommittee appreciates all of your contributions made today. This concludes the legislative hearing on H.R. 354, the Collection of Information Antipiracy Act.

The record will remain open for 2 weeks, in lieu of the customary one. The Coalition has requested the 2-week window, and since we didn't get the administration's written statement until last night, that will afford us additional time.

Thank you for your cooperation. The subcommittee stands adjourned.

[Whereupon, at 2:45 p.m., the hearing was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

MULLENHOLZ, BRIMSEK & BELAIR,
ATTORNEYS AT LAW,
Washington, DC, March 25, 1999.

Vincent E. Garlock, Counsel,
Subcommittee on Courts and Intellectual Property,
Committee on the Judiciary,
House of Representatives, Washington, DC.

DEAR VINCE: On behalf of the Coalition to Preserve Access to White Pages, we are enclosing five copies of written testimony about H.R. 354, the "Collections of Information Antipiracy Act." Please include this testimony in the March 18, 1999 hearing record.

Sincerely,

SUSAN C. HALLER.

Enclosures

COALITION TO PRESERVE ACCESS TO WHITE PAGES,
Washington, DC, March 25, 1999.

Hon. HOWARD COBLE, Chairman,
Subcommittee on Courts and Intellectual Property,
Committee on the Judiciary,
House of Representatives, Washington, DC.

DEAR CHAIRMAN COBLE: I am Steven L. Chudleigh, Vice President of Infonational, a wholly owned subsidiary of The Polk Company. The Polk Company was founded in Detroit in 1870 and is headquartered in Southfield, Michigan. The Polk Company has operations throughout the world and its business activities include motor vehicle statistics, direct marketing, geographic mapping, and city directories. Infonational is located in Orem, Utah. Infonational optically scans White Pages telephone directories from throughout the United States and uses Optical Character Recognition (OCR) to turn the images into text. We combine White Pages information with Polk proprietary databases for use in marketing, directory publishing, and safety recalls.

I am testifying today on behalf of the Coalition to Preserve Access to White Pages about Section 1405(f) of H.R. 354, the "Collections of Information Antipiracy Act." Polk is a member of the Coalition. Other members of the Coalition are Acxiom Corporation (corporate headquarters in Conway, AR); Bresser's Cross-Index Directory Company (corporate headquarters in Detroit, MI); City Publishing Company (corporate headquarters in Independence, KS); Experian (corporate headquarters in Orange, CA); First Data Solutions, a subsidiary of First Data Corporation (corporate headquarters in Atlanta, GA); Haines & Company (corporate headquarters in North Canton, OH); Hill-Donnelly Corporation (corporate headquarters in Tampa, FL); and infoUSA (corporate headquarters in Omaha, NE). The Coalition is also working in concert with the Direct Marketing Association.

On behalf of the Coalition, I would like to congratulate you, Mr. Chairman, Members of the Subcommittee, and the outstanding Subcommittee staff, on a bill which would restore commercial incentives for the creation of "sweat-of-the-brow" compilations by prohibiting the extraction or commercial use of collections of information gathered or assembled by another person through a substantial investment of money or other resources and, as a result, causing harm to that person's actual or potential market. The Coalition supports the goal of the bill and seeks one change in order to preserve access to White Pages directories. This change, for the reasons

which we explain below, is entirely consistent with the goals, purposes, and approach of your legislation.

Our one proposed change relates to Section 1405(f). As currently drafted, Section 1405(f)¹ does two things: (1) makes clear that Section 222 of the Communications Act (which requires telecommunications carriers to provide subscriber list information in a timely manner and under nondiscriminatory and reasonable rates) is unaffected; and (2) provides that any person can obtain or use subscriber list information (even if they do not buy it from a telephone company but, rather, buy an actual copy of a White Pages directory and scan or key punch the subscriber list information) *but only* for the purpose of publishing a telephone directory.

Members of the Coalition (and many other companies) capture subscriber list information (e.g., published name, address, and telephone number information) and use it for a variety of socially and economically beneficial products and services, many of which, however, do not fall within the category of "telephone directories."

Thus, the Coalition urges you, Mr. Chairman, and Members of the Subcommittee, to change Section 1405 (f) so that the provision preserves access not just to alternative telephone directory publishers, but for all users. This can be accomplished by removing the phrase "for the purpose of publishing telephone directories in any format" from the end of Section 1405(f).

Five public policy considerations compel the conclusion that Section 1405(f) should be amended to protect public access to White Pages information for commercial purposes:

- (1) Keeping White Pages directories in the public domain will not create disincentives for producing White Pages.
- (2) Section 1405(f) provides access for alternative directory publishers. Section 1405(f), however, does not provide access to Coalition members and others who use White Pages information for a vast array of socially and economically important purposes.
- (3) Unless Section 1405(f) is amended, telephone companies would have an ironclad, government-supported monopoly and many critical products and services incorporating subscriber list information may become unavailable.
- (4) Section 222 of the Communications Act of 1934 is not sufficient to protect the interests of commercial users of White Pages directories.
- (5) Continuing to keep White Pages information in the public domain will not violate consumers' privacy rights.

1. KEEPING WHITE PAGES DIRECTORIES IN THE PUBLIC DOMAIN WILL NOT CREATE DISINCENTIVES FOR PRODUCING WHITE PAGES.

The purpose of the Collections of Information Antipiracy Act is to restore commercial incentives for the creation of "sweat-of-the-brow" compilations, especially in light of new technologies which make it less expensive and easier for competitors to capture and use these compilations. Telephone companies, however, are required by state law, regulation, and policy to publish White Pages directories. Therefore, preserving open access to White Pages directories will not undermine incentives to produce White Pages because telephone companies must produce White Pages, regardless of any commercial incentive to do so.

2. ACCESS TO SUBSCRIBER LIST INFORMATION SHOULD NOT BE LIMITED TO ALTERNATIVE DIRECTORY PUBLISHERS.

As currently drafted, Section 1405(f) does not restrict the extraction or use of subscriber list information "for the purpose of publishing telephone directories in any format." There is no legal or policy basis for allowing access to White Pages directories to alternative directory publishers while cutting off access to other legitimate commercial users.

Members of the Coalition use subscriber list information for a variety of socially beneficial purposes including the following: motor vehicle recall campaigns, fraud prevention, political campaign polls and surveys, locating missing persons, child support enforcement, uniting separated families, locating heirs to estates, locating pension fund beneficiaries, apprehending criminals, locating witnesses, locating organ and bone marrow donors, and providing consumers with targeted marketing

¹ COMMUNICATIONS ACT OF 1934.—Nothing in this chapter shall affect the operation of the provisions of the Communications Act of 1934 (47 U.S.C. 151 et seq.), or shall restrict any person from extracting or using subscriber list information, as such term is defined in section 222(f)(3) of the Communications Act of 1934 (47 U.S.C. 222(f)(3)), for the purpose of publishing telephone directories in any format.

opportunities. Members of the Coalition sell their products and services to a wide variety of users including government agencies (e.g., law enforcement agencies), businesses, and individuals. Unlike alternative directory publishers, members of the Coalition generally do not provide products and services that are in direct competition with telephone companies.

The products and services of Coalition members are more than a mere republication of White Pages information. Coalition members use the White Pages information as a raw material and greatly enhance it to create their products and provide their services. Coalition members enhance White Pages information by adding other categories of information such as public record data and self-reported data. The White Pages directories provide highly accurate information and, when used in combination with other information, serve as a means by which to ensure the accuracy of name, address, and telephone number information used in a wide array of products and services. As a result, the value of those products and services to consumers is enhanced by reducing the possibility of misidentifying individuals and thereby misdirecting resources.

As you know, Senator Hatch's draft "Database Antipiracy Act of 1999" removes the language limiting the extraction and use of subscriber list information to telephone directories.² By removing the phrase "for the purpose of publishing telephone directories in any format," the draft Database Antipiracy Act of 1999 preserves open access to subscriber list information. In addition, in the "Database Fair Competition and Research Promotion Act of 1999"—a bill proposed by certain commercial database users, supported by the scientific, academic, and library communities, and included by Senator Hatch in his January 19, 1999 *Congressional Record* statement—similar language has been adopted. We urge you, Mr. Chairman, and Members of the Subcommittee to similarly preserve open access to White Pages directories.

3. UNLESS SECTION 1405(T) IS AMENDED, TELEPHONE COMPANIES WOULD HAVE A GOVERNMENT-SPONSORED MONOPOLY.

If the Collections of Information Antipiracy Act were to become law and were to include Section 1405(f) as currently drafted, the effect would be to give telephone companies a highly unfair advantage to use subscriber list information to develop products and services in competition with members of the Coalition and other commercial users of White Pages directories. Quite simply, telephone companies would enjoy a government-supported monopoly position. Commercial users of White Pages directories, such as members of the Coalition, would have to deal directly with telephone companies in order to obtain subscriber list information—a practice which many commercial users have found to be unworkable.

As a matter of fairness, access to subscriber list information should not be restricted. The telephone companies are frequently the sole source of White Pages information, which is a public resource. Failure to protect the "*Feist*" rights of all commercial users would create an unfair advantage for telephone companies to produce these products and services.³ While telephone companies do not currently actively compete in the production of these information products, this bill would increase the incentives for telephone companies, as the sole source of this information, to expand into these product areas to the exclusion of current commercial users. H.R. 354 protects the *Feist* rights of alternative telephone directory publishers. While this is a start, just as the alternative telephone directory publishers deserve access, so too must the *Feist* rights of other commercial users of this information be protected and preserved.

4. SECTION 222 OF THE COMMUNICATIONS ACT OF 1934 IS NOT SUFFICIENT TO PROTECT THE INTERESTS OF COMMERCIAL USERS OF WHITE PAGES.

As noted, telephone companies make subscriber list information available in two formats: hardcopy (i.e., White Pages directories) and electronic format (e.g., magnetic tape). State laws, regulations, and policy require the publication and distribution of hard copy directories to the public. Federal law, through Section 222(e) of the Communications Act of 1934, as amended by the Telecommunications Act of 1996,⁴ requires telephone companies to make subscriber list information available on "a timely and unbundled basis, under nondiscriminatory and reasonable rates,

²Section 1306(f) of the draft Database Antipiracy Act of 1999.

³The Supreme Court held in *Rural Telephone Service Co. v. Feist Publications, Inc.*, 499 U.S. 340 (1991) ("*Feist*"), that White Pages directories, as a matter of constitutional law, are not eligible for federal copyright protection because producing a White Pages directory does not entail the degree of creativity required for a work to receive copyright protection.

⁴47 U.S.C. § 222(e).

terms, and conditions, to any person upon request for the purpose of publishing directories in any format."

This provision is designed to preserve access to subscriber list information for the publication of directories, not the wide array of commercial information products produced using subscriber list information contained in White Pages directories. Section 222(e) applies to subscriber list information obtained directly from telephone companies and not to subscriber list information obtained from published White Pages directories. For directory publishers that choose to go directly to a telephone company, Section 222(e) guarantees nondiscriminatory access and reasonable rates. The Federal Communications Commission has the responsibility for determining what constitutes "nondiscriminatory and reasonable rates, terms, and conditions" but it has not yet made a determination.

Many commercial users find it necessary to obtain telephone books in the hard copy format and electronically scan or manually input each entry in order to use subscriber list information. This *Feist* access guarantees public access irrespective of telephone company practices regarding White Pages information in the electronic format under Section 222 of the Communications Act.

Section 1405(f), as currently drafted, expressly leaves in place Section 222 of the Telecommunications Act and some have suggested that Section 222 is sufficient to protect the interests of commercial users of White Pages directories. Section 222 of the Telecommunications Act, however, which merely provides that telephone companies must make subscriber list information available to directory publishers on a non-discriminatory basis and at reasonable prices, was never intended to address or preserve open access to subscriber list information.

Section 222 was enacted in 1996, five years after the Supreme Court's decision in *Feist*, holding that copyright protection does not extend to White Pages directories and effectively placing White Pages directories in the public domain. Congress enacted Section 222 with the understanding that White Pages information is public domain information which is not subject to copyright protection or, for that matter, any kind of misappropriation protection. That being the case, Section 222 merely sought to provide that, if a publisher of a directory wished to buy subscriber list information *directly* from a telephone company (as opposed to buying copies of White Pages directories in the marketplace), a telephone company must make subscriber list information available to that publisher on a non-discriminatory basis and at reasonable prices. This protection, by its very terms, applies only to directory publishers and, what's more, would not protect a right of open access to White Pages information if the Collections of Information Antipiracy Act were enacted and were to include Section 1405(f) as currently drafted. In that event, commercial users of White Pages directories would lose their right to purchase White Pages directories in the marketplace and scan or key-in that information or otherwise use that information for economically and socially valuable commercial products.

During the 105th Congress, the Association of Directory Publishers ("ADP") recognized that Section 222 would not preserve *Feist* rights and endorsed the exemptive language which was embodied in 1205(f) of H.R. 2-652 (Section 1405(f) of H.R. 354). As the ADP put it in their testimony before the House, "In enacting this provision in 1996 [Section 222 of the Telecommunications Act], Congress intended to build on our preexisting ability to copy published listings, as authorized under the 1991 *Feist* case. The statute was meant to promote reasonable licensing agreements, not revoke the ability of independent publishers to copy listings in cases where licensing agreements are not concluded." It would be equally unfair and unwise to revoke the ability of independent commercial users to copy White Pages directories, but that is exactly what Section 1405(f) would do.

5. KEEPING WHITE PAGES INFORMATION IN THE PUBLIC DOMAIN WILL NOT VIOLATE CONSUMERS' PRIVACY RIGHTS.

Providing open access to subscriber list information would not compromise consumers' privacy interests. By definition, "subscriber list information" is limited to "any information . . . identifying the *listed* names of subscribers of a carrier and such subscribers' telephone numbers, [and] addresses."⁵ Consumers have the option to opt-out of being listed in the White Pages directories by requesting an unlisted telephone number from their telephone company. The telephone directory opt-out program is certainly one of the most well-known and effective opt-out programs. If a consumer requests an unlisted telephone number, then that information is not available in White Pages directories.

⁵ 47 U.S.C.A. § 222(f)(3) (Supp. 1998) (emphasis added).

CONCLUSION.

The Coalition's proposed amendment to Section 1405(f) would protect the legal status of the White Pages information as a public resource. The proposed amendment does not create new or special rights for the use of White Pages information, rather it preserves the ability of commercial users of White Pages information to continue to produce the products and services which are of benefit to a wide array of users including law enforcement, business, and individuals. As we have demonstrated, preserving open access to White Pages directories by amending Section 1405(f) will not undermine the goals of the Collections. of Information Antipiracy Act.

I would like to thank you, Mr. Chairman, and Members of the Subcommittee for this opportunity to testify. The Members of the Coalition to Preserve Access to White Pages look forward to continuing to work closely with you, Members of the Subcommittee, and Subcommittee staff.

Sincerely,

STEVEN L. CHUDLEIGH, VP-Infonational,
The Polk Company, Orem, UT.

PREPARED STATEMENT OF THE ASSOCIATION OF DIRECTORY PUBLISHERS

The Association of Directory Publishers (ADP) submits the following statement for the record in connection with the March 18, 1999, hearing of the Courts and Intellectual Property Subcommittee on H.R. 354, the "Collections of Information Antipiracy Act."

The Association of Directory Publishers (ADP) is a century-old international trade association of over 180 independent telephone directory publishers employing thousands of individuals throughout the country. ADP members provide consumers with telephone directories that include white and yellow pages listings, plus community information. These products are indispensable links in the communications network that binds communities together.

Consumers have benefited greatly from the competition that ADP's members have brought to the directory industry. Many of the innovations independent publishers have introduced are now standard in directories today. They were the first to introduce coupons and maps to directory products. Independent publishers created the first community sections with helpful local information, such as frequently called service and government numbers, school information, sports schedules, and seating diagrams for auditoriums and stadiums. Recently, independent publishers were the first publishers to add zip codes to the white page listings, again expanding the usefulness of directories. These enhancements were quickly copied by phone company publishers, thus making all phone books more useful to consumers and businesses.

The Association of Directory Publishers supports the inclusion of new 17 U.S.C. §1405 (f) in H.R. 354. This provision ensures that directory publishers will continue to have access to subscriber lists (name, address and phone number) as authorized by the Supreme Court in *Feist* and Section 222(e) of the Telecommunications Act of 1996. Specifically, the provision provides:

(f) Communications Act of 1934.—Nothing in this chapter shall affect the operation of the provisions of the Communications Act of 1934 (47 U.S.C. 151 et seq.), or shall restrict any person from extracting or using subscriber list information, as such term is defined in section 222(f) (3) of the Communications Act of 1934 (47 U.S.C. 222(f) (3)), for the purpose of publishing telephone directories in any format.

As directory publishers, ADP members need complete and up-to-date subscriber list information to produce their products. Local phone companies must gather this? information as part of providing local phone service. They therefore have sole access to such information and monopoly control over it.

The local phone companies' directory publishing arms currently control 93% of the directory market, and the telephone companies have long used their control over subscriber list information to restrict our competitive access to this essential data. Their anti-competitive practices include unreasonable prices, refusal to sell updates, and even outright refusal to sell listings at any price or on any terms.

In 1996, as part of the historic Telecommunications Act and in response to years of anticompetitive behavior by phone companies, Congress established a clear federal guarantee of competition in the telephone directory business. In the new Section 222(e), Congress enunciated in plain terms the right of independent publishers to access subscriber list information under reasonable rates, terms and conditions. Sections 222(e) and 222(f)(3) of the Communications Act provide:

Subscriber List Information.—Notwithstanding subsections (b), (c), and (d), a telecommunications carrier that provides telephone exchange service shall provide subscriber list information gathered in its capacity as a provider of such service on a timely and unbundled basis, under nondiscriminatory and reasonable rates, terms, and conditions, to any person upon request for the purpose of publishing directories in any format. [47 U.S.C. 222(e)]

Subscriber List Information.—The term 'subscriber list information' means any information—

(A) identifying the listed names of subscribers of a carrier and such subscribers' telephone numbers, addresses, or primary advertising classifications (as such classifications are assigned at the time of the establishment of such service), or any combination of such listed names, numbers, addresses, or classifications, and

(B) that the carrier or an affiliate has published, caused to be published, or accepted for publication in any directory format. [47 U.S.C. 222(f)(3)]

The legislative history on this provision clearly documents the abuses ADP members suffered over the past decade. Some examples include: local exchange carriers charging excessive and discriminatory prices, requiring the purchase of listings on a bundled statewide basis when independent publishers needed only listings for one community, and, in some cases, outright refusals to sell listings or updates. Sec. 222(e) was enacted to prevent telephone companies from exercising their *de facto* monopoly over essential factual information—which arises entirely as a byproduct of their provision of regulated local telephone exchange service—to restrict or prevent competition in the unregulated and potentially competitive directory advertising business. See, e.g., House Rept. 104-204, Part 1, pp. 89-90; 142 Cong. Rec. E184 (daily ed. Feb. 6, 1996)(statement of Rep. Paxon); 142 Cong. Rec. H1 160 (daily ed. Feb. 1, 1996)(statement of Rep. Barton).

In enacting this provision in 1996, Congress intended to build on independent publishers' pre-existing ability to copy published listings, as authorized under the 1991 *Feist* case. The statute was meant to promote reasonable licensing agreements, not revoke the ability of independent publishers to copy listings in cases where licensing agreements are not concluded.

The *Feist* case is named for Tom Feist, who is an ADP member. Mr. Feist was left with no choice but to copy listings in order to provide consumers a convenient, one-book directory covering eleven different service areas, because one of the telcos refused to license its listings to him. The Supreme Court ruled in *Feist's* favor, concluding that "[f]acts, whether alone or as part of a compilation, are not original and therefore may not be copyrighted." (*Feist Publications v. Rural Telephone Service Co.*, 499 U.S. 340, 350 (1991)) Nor could the phone company secure a copyright in its compilation of these facts, because the coordination and arrangement of telephone listings in alphabetical order is "not only unoriginal, it is practically inevitable." (*Id.* at 363) Moreover, the Court noted that the phone company's selection of listings lacked the requisite originality because the state required the company to publish the names and numbers of its subscribers as a condition of its monopoly franchise. (*Id.*)

Without § 1405 (f) that excludes subscriber list information, it could be argued that an independent publisher's extraction or use of such data could constitute a "misappropriation" under H.R. 354.

The need for independent publishers to continue to rely on the ability to access listings—as affirmed by the Supreme Court in *Feist*—is best demonstrated by the fact that the abuses Congress sought to end in enacting Section 222(e) continue unabated today. When reasonable licensing arrangements cannot be worked out with the phone companies, independent publishers are left with no alternative but to exercise the "last resort" option of doing what Tom Feist did and copy listings out of the phone company's book.

ADP believes that many local phone companies are violating Section 222(e). Actual examples of such illegal conduct include:

- Phone companies continue to earn profits only a monopolist can get away with. While one local phone company has testified that it earns a 1,300% profit when selling its listings for 40¢/listing, other local phone companies garner even more excessive profit margins because they sell listings for far more—40, 50, 60, 75 cents, even as much as \$1.67 per listing.
- Local phone companies charge different prices for the exact same listing depending on how the publisher intends to use the directory. For instance, some local phone companies triple their price if the listing will be used in more than one printed directory and charge still more if the listing will be used in a CD-ROM directory.

- Several local phone companies simply won't provide updates to ADP members—these are new connects, disconnects and changes of address. Other local phone companies do provide updates, but impose unreasonable prices and restrictions.

ADP members are fearful that even more egregious abuses would occur without *Feist*. The prices telephone companies charge independent publishers to license listings now are constrained, as a practical matter, primarily by the right of independent publishers to copy white pages listings. If that right were removed and copying deemed a misappropriation, then Congress' goal of ensuring reasonable pricing under Section 222(e) of the Communications Act will be seriously undermined.

The Copyright Office has recognized the special circumstances relating to phone listings in its August 1997 *Report on Legal Protection for Databases*. In cases involving sole source data, of which telephone subscriber information is a "prototypical example," the Copyright Office observes, "[u]nless the producer chooses to make such data freely available, it is simply not possible for anyone else to obtain it independently." (Copyright Office Report, 1997, p. 102)

Dr. Laura D'Andrea Tyson similarly has noted the special circumstances relating to telephone listings in her study, *Statutory Protection for Databases: Economic & Public Policy Issues*. She observes, "the factual situations of the *Feist* case [i.e., telephone listings] are in reality much closer to the kinds of concerns addressed in the antitrust law under the rubric of so-called 'essential facilities' than they are to the kinds of concerns raised by a typical 'database piracy' case." She concludes, "[w]hen data is generated by a government-created monopolist, it is not appropriate to allow the monopolist to control database products building on that data." (Tyson and Sherry, 1997, pp. 24-25)

ADP appreciates the inclusion of § 1405 (f) in the bill. This provision will allow publishers to access telephone subscriber lists as guaranteed under *Feist* and Section 222(e). On behalf of all independent directory publishers, we thank you for preserving this important policy, which promotes competition in the directory marketplace.

AMERICAN ONLINE INC.,
LAW AND PUBLIC AFFAIRS GROUP,
Washington, DC, March 18, 1999.

Hon. HOWARD COBLE, *Chairman,*
Subcommittee on Courts and Intellectual Property,
Committee on the Judiciary,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: On behalf of America Online Inc. (AOL), I am submitting these comments in response to HR 354, the Collections of Information Antipiracy Act. As the world's leading online service and Internet access provider, AOL has a strong interest in helping to ensure that the online medium continues to enjoy a balanced policy environment that protects the rights of content providers while safeguarding the interests of users.

As a creator of online content and a copyright owner, AOL has carefully considered the arguments in favor of new legislation giving broad rights to compilers of "collections of information." We have also weighed the potential risks that such a step might pose to a rapidly evolving global network that is based on the free flow of information through easy-to-use, consumer-friendly "linking" protocols. We have concluded that HR 354, as currently drafted, could pose a significant threat to the ability of service providers to offer some of the important links, directories, and reference products that are so crucial to helping users navigate the vast universe of information found online. Because these risks greatly overshadow any benefits that the legislation might provide, we have determined that we cannot support the bill in its present form.

Indeed, while we are continuing to study the issue in depth, we are doubtful at this time that legislation of any kind is needed to provide incentives for the compilation of databases. We do not currently believe there is persuasive evidence that the existing combination of technology and federal and state law has hindered database formation. In fact, products are now coming to market that will allow compilers to control individual instances of usage after the compilation has been electronically transmitted to others. This is an area that we hope the Committee will investigate further before deciding to advance database legislation.

AOL appreciates your longstanding leadership in intellectual property matters and shares your commitment to strong protection for creative content, but we are quite concerned that the broad approach contemplated by H.R. 354 could pose a seri-

ous threat to the continued availability of crucial information that makes the Internet the invaluable research and educational tool it is today. We therefore hope you will reconsider this approach, and would welcome the opportunity to discuss these issues with you further.

Very truly yours,

JILL LESSER, *Director,
Domestic Public Policy.*

CC: The Honorable Howard Berman, Ranking Member

INFORMATION TECHNOLOGY
ASSOCIATION OF AMERICA,
Arlington, VA, April 1, 1999.

HON. HOWARD BERMAN,
*Committee on the Judiciary,
House of Representatives, Washington, DC.*

DEAR CONGRESSMAN BERMAN: On behalf of some of the commercial entities concerned with the Collections of Information Antipiracy Act, including the Information Technology Association of America, the Online Banking Association, and the Computer and Communications Industry Association, I am replying to your request at the March 18 hearing for comments on the Administration's testimony on H.R. 354.

The Administration's testimony does three things: it articulates principles which should guide database legislation; it identifies problems with H.R. 354 from the perspective of those principles; and for some of these problems, recommends specific legislative solutions. As a general matter, we agree with the principles articulated; we agree that the problems identified are indeed problems; and we agree with many of the specific solutions proposed.

At the same time, although the Administration's testimony is generally very thoughtful, it has not addressed some significant problems with H.R. 354. For example, it does not address the liability of online service providers for the distribution of infringing databases. This issue needs to be addressed, whether or not the Administration's proposal to substitute "distribute" for "use" is adopted. The inclusion of a title limiting the copyright liability of service providers in the Digital Millennium Copyright Act demonstrates both that this is a significant issue and that it is capable of resolution.

Further, although the specific solutions proposed by the Administration will no doubt improve the bill, in several cases the solutions offered do not solve the problems they were intended to address. For instance, the Administration proposes changes to the core prohibition in Section 1402 that narrow its scope. However, these changes are not sufficient to preserve many legitimate uses of information.

As Professor Charles Phelps explains in Section III.C. of his testimony, H.R. 354 would impose liability for the taking of a qualitatively substantial, but *quantitatively insubstantial*, part of a database. While the statute specifically permits use of one item of information, the use of just two or three items of information could be prohibited. Moreover, H.R. 354 could prohibit use of these two or three items of information even if the database publisher invested minimal resources in the collection of these particular facts. H.R. 354 simply requires substantial investment in the database as a whole, not substantial investment in the part taken. Professor Phelps' specific proposals addresses this overbreadth warrant serious consideration.

Additionally, for some critical issues, the Administration testimony identifies the problem but does not propose a concrete solution. This is the case with permitted uses and sole source databases. The absence of proposed solutions is not surprising; these are perhaps the most serious problems with the bill, and they are not capable of easy resolution. At the hearing you jokingly referred to a compulsory license, but that may well be the only effective way of dealing with the sole source issue. This extreme relief is necessitated by the extreme prohibition contained in this legislation.

We directly disagree with the Administration testimony concerning a few significant issues. There has been no showing whatsoever that the civil liability created by H.R. 354 will be insufficient to prevent the database piracy which is its target. Criminal sanctions, therefore, are completely unjustified. They are likely to cast a pall over lawful business activity without measurably deterring unlawful conduct. We also disagree with the testimony's support for protecting databases already in existence. Rather, we concur with the testimony's statement that "[b]ased on a strict economic analysis, coverage of such databases is not necessary—the investment occurred without the legal protection." Administration Testimony at 21.

Finally, we disagree with the Administration's interpretation of what it calls the "minimalist" bill placed in the *Congressional Record* by Chairman Hatch. The Administration understands this bill "to bar only misappropriation of an entire database. . . ." Administration Testimony at 47 n.5. We read the bill more broadly—as also barring misappropriation of discrete parts of a database that by themselves meet the definition of a database. This broader reading might cause the Administration to reverse its conclusion that the "minimalist" bill is "too narrow as a policy matter." Id. Indeed, we believe this alternative bill to be a more appropriate template for database protection than H.R. 354.

We look forward to working with the Subcommittee and the Administration on this important issue.

Sincerely,

MARC A. PEARL.

cc: Chairman Howard Coble
Honorable Members of the Courts and Intellectual
Property House Subcommittee
Mr. Andrew Pincus, General Counsel, Department of Commerce

ASSOCIATION OF RESEARCH LIBRARIES,
Washington, DC, April 1, 1999.

Hon. HOWARD COBLE, *Chairman,*
Subcommittee on Courts and Intellectual Property,
Committee on the Judiciary,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: This letter is in response to the request made at the March 18 hearing on H.R. 354, for a review of the Administration's testimony on the "Collections of Information Antipiracy Act." We very much appreciate the opportunity to provide additional comment on the legislation on behalf of five of the Nation's library associations.

The library associations agree with the Administration position that there is a need for legal protection against commercial misappropriation of collections of information where other legal protections and remedies are inadequate and that there should be effective legal remedies against "free-riders." In addition, we agree that as drafted, provisions in H.R. 354 are "too broad" and accomplish much more than targeting "troubling acts of commercial misappropriation."

Overall, the library associations agree with the majority of the Administration's comments on H.R. 354. Most of the concerns with H.R. 354 raised by the Administration mirror those included in our testimony on the legislation. We believe that the six principles articulated in the Administration statement propose a balanced approach to additional protections for databases. The problems enumerated by the Administration address most of the significant but not all of the concerns of the library associations and others in the not-for-profit sectors. These concerns are detailed in much of the testimony by representatives of the library, higher education, and scientific and research communities during the March 18 hearing. We find that the Administration's proposed changes are extremely helpful, though several do not fully address the complexity of selected issues. Key issues are listed below.

1) Breadth of legislation:

The Administration notes that section 1402 is overly broad and the term it use" is "simply too broad and ambiguous." The Administration suggests that a focus on conduct such as "troubling acts of commercial misappropriation" is more appropriate. The Administration further suggests that the term distribution be used in lieu of "use," and that the concepts of actual and potential market are problematic.

We completely agree with the Administration that the section is too broad and that the legislation should target inappropriate conduct, e.g. commercial free-riding. The Administration suggested a revision of substituting "distribution" for "use" that would improve the legislation. We share the concern that terms such as extraction and use are problematic. There are a number of ways by which these concerns could be addressed which merit further discussion and review. For example, one revision which solves part of this problem was included in Dr. Phelps' statement.

2) Government Information:

The library associations and our members have a long history of working with the federal government in support of preserving access to government data. The Administration testimony identifies some of the thorniest and most complex issues raised by the legislation such as "data capture" or government databases mandated by

statute that include private sector data. The notion of urging agencies to comply is noteworthy as is disclosure of source but more consideration of these issues is required. The Administration statement notes that in the context of the recent revision to Circular A-110, uniform access requirements on government agencies are not recommended. Indeed, this revision has proven to be highly controversial thus any statutory changes in this arena should be subject to congressional hearings and debate.

3) *Sole Source:*

The Administration identifies issues relating to sole source databases as problematic and worthy of addressing. We understand that tackling this issue is extremely difficult but believe that as the Administration notes, "it will be important that any database protection legislation incorporate provisions that guard against the possibility that sole source database providers will employ their new rights to the detriment of competition in related markets."

The alternative draft bill, the "Database Fair Competition and Research Promotion Act of 1999" placed in the Congressional Record by Sen. Hatch addresses the issue of sole source. Further evaluation of the different approaches would be helpful.

4) *Duration of Protection:*

We agree with the Administration that "there is no single, optimal term of protections for the wide range of products subject to protections as 'databases' or 'collections of information.'" We continue to be concerned that a 15-year term of protection may be excessive. As noted by the Federal Trade Commission in their review of H.R. 2652, the predecessor to H.R. 354, "it is unclear that a 15-year term is necessary in order to protect incentives to produce all types of databases." The useful commercial life of some data, like stock prices, can expire in a matter of hours, if not minutes.

Like the Administration, we believe that there is a significant risk that language in H.R. 354 could result in the perpetual protection of a database or collection of information. We agree that a deposit system may be unwieldy and raises a number of economic concerns. The Administration's suggestion of, for example making older versions of a database publicly available, is a step in the right direction but given the complexity of this issue, additional consideration is necessary.

5) *Reasonable Uses:*

The inclusion of new language for "reasonable uses" in H.R. 354 is a modest step in the right direction in addressing a serious concern of the library and education community and the Administration. As noted by the Administration, the library associations, and Dr. Phelps, the provision as drafted falls short of what is required to continue to conduct a wide range of currently reasonable and customary research and education activities. The Administration did not address several issues, in particular, the phrase "individual acts," which is extremely problematic. As H.R. 354 moves through the legislative process, it will be important to examine the full range of concerns such as those noted above.

6) *OSP Liability:*

The Administration statement does not address issues of online service provider liability. The alternative draft bill, the "Database Fair Competition and Research Promotion Act of 1999" and Senator Hatch's Discussion Draft both include a provision that exempts online service providers from liability. Comparable provisions are needed in H.R. 354.

7) *Alternative Proposals:*

We do not agree with the Administration statement that the "minimalist" approach taken in the draft bill, the "Database Fair Competition and Research Promotion Act of 1999" "appears to only bar misappropriation of an entire database." We believe that an opportunity to fully examine all approaches to commercial misappropriation of collections of information would be productive.

We look forward to working with Members of the Subcommittee on this legislation. Please let me know if there is additional information that we can provide.

Sincerely,

JAMES G. NEAL, *Dean,*
University Libraries, Johns Hopkins University,
on behalf of the
 AMERICAN LIBRARY ASSOCIATION,
 ASSOCIATION OF RESEARCH LIBRARIES,
 AMERICAN ASSOCIATION OF LAW LIBRARIES,
 MEDICAL LIBRARY ASSOCIATION,
 SPECIAL LIBRARIES ASSOCIATION.

cc: Members of the Subcommittee on Courts and Intellectual Property

BALL RESEARCH, INC.,
 DATA BASE,
 East Lansing, MI, March 30, 1999.

Hon. HOWARD COBLE, *Chairman,*
Subcommittee on Courts and Intellectual Property,
Committee on the Judiciary,
House of Representatives, Washington, DC.

DEAR CHAIRMAN COBLE: Ball Research, Inc. is pleased to submit the following comments for the record of your hearing on H.R. 354, "The Collections of Information Antipiracy Act."

Ball Research, located in East Lansing, Michigan, creates and maintains a comprehensive database containing valuable information on the field performance of agricultural chemicals. Ball Research has also developed and maintains proprietary software programs to access databases. Since starting the business in my home in 1985, I have developed a successful small agribusiness.

We recognize the need to protect against the commercial predation of databases and applaud you for your leadership in this effort. At the same time, however, we are concerned that H.R. 354 in its present form would seriously endanger our company's ability to continue doing business. This is because much of the data gathered by Ball Research, which is now in the public domain accessible to anyone, would no longer be available at any price—to Ball Research nor to anyone else.

Ball Research collects data from research conducted on public lands with funds appropriated by Congress under the federal land grant laws. Ball compiles the data from over 39 different federal land grant colleges into a uniform, computerized database which provides valuable information to agricultural chemical firms, as well as government and research scientists. The databases created by Ball Research show how various chemicals used in agriculture perform in a wide range of climatic conditions, soil types and other variables that differ from one region of the country to another.

Generally, we believe that databases created with substantial government funding should not be included in the protections provided by your bill. Clearly, once taxpayers have paid for the generation of this data, it is in the public interest that the fruits of this research are widely available.

This principle is especially true in Ball Research's situation. The preparation of the data we access is largely funded by the Department of Agriculture under federal land grant laws. For more than a century, the government had promoted agricultural research at land grant colleges with the aim of assuring that this research translates into practical applications and new technologies, benefiting our society as a whole. To restrict public access to the results of this research directly conflicts with the vision of this long-standing federal policy.

We, therefore, urge you to make the necessary revisions to your bill to assure that this particular class of publicly-funded research—that is conducted with funding under the federal land grant college laws—will remain in the public domain.

Thank you for your consideration of our views.

Sincerely,

KENNETH W. LINVILLE, *Ph.D., President.*

LICENSING INFORMATION IN THE GLOBAL INFORMATION MARKET: FREEDOM OF CONTRACT MEETS PUBLIC POLICY¹

BY PAMELA SAMUELSON² AND KURT OPSAHL³

INTRODUCTION

Expectations run high that a global marketplace will emerge in which electronic contracts will be made in cyberspace to provide electronic information to customers via digital networks, all of which will be paid for with electronic currencies.⁴ A necessary precondition of such markets is an international consensus on when an exchange of electronic messages has formed a contract and how far information providers can go in enforcing contractual terms that brush up against, if not conflict, with public policies such as those embodied in intellectual property law.

While scenarios of electronic agents negotiating contracts in cyberspace may seem like science fiction to some, there is already in existence in the U.S. a model law to permit the making of such contracts.⁵ Proponents of this model law, which is known as Article 2B of the Uniform Commercial Code (UCC), hope to export it to the international community.⁶ The broadest aspiration of Article 2B is to promote commerce in the information economy just as Articles 2 and 2A of the UCC have done, at least in the U.S., in promoting commerce in the manufacturing economy.⁷ To accomplish this, Article 2B applies to far more than futuristic electronic contracts. At one time, it would have regulated all transactions in information.⁸ In its current iteration, it encompasses all "computer information transactions," which includes "computer software, multimedia or interactive products, computer data, Internet, and online distribution of information."⁹

The paradigmatic transaction of Article 2B is a license,¹⁰ as contrasted with a sale of copies which has long been the prototypical transaction in the marketplace for printed works. Among other things, Article 2B would validate mass-market licenses such as those typically found under the plastic shrink-wrap of boxed software which inform the reader that loading the enclosed code onto one's hard-drive constitutes an agreement to terms of the license.¹¹

Given the well-known American reverence for the free market, it should not be surprising that the drafters of Article 2B initially sought to limit public policy limitations on contracts to those that were unconscionable.¹² Unconscionability is a very difficult threshold to meet because it requires that terms be shockingly oppressive,

¹ An earlier version of this paper will be published in the *European Intellectual Property Review*.

² Professor of Law and of Information Management, University of California at Berkeley.

³ Research Fellow to Prof. Samuelson; Juris Doctor 1997, University of California at Berkeley School of Law.

⁴ See generally, William J. Clinton & Albert Gore, Jr., A FRAMEWORK FOR GLOBAL ELECTRONIC COMMERCE, (July 1, 1997) [hereinafter Framework]; Lynn Margherio, U.S. Dept. of Commerce, THE EMERGING DIGITAL ECONOMY, (April 1998).

⁵ Uniform Commercial Code article 2B, §§ 2B-102(a)(221), 2B-111, 2B-204 (Draft, Feb. 1, 1999).

⁶ The Framework, *supra* note 1, calls for a global uniform commercial framework. Article 2B explicitly answers that call, citing to the Framework in the Preface. See U.C.C. art. 2B Preface (Draft, Aug. 1, 1998).

⁷ The Preface to Article 2B begins with the following epigraph:

"It is timely now to adapt [the UCC's] framework to the digital era and to the new information products and services that will increasingly drive Global Electronic Commerce. . . . Article 2B can be a strong first step toward a common legal. . . ."

U.C.C. art. 2B Preface (Draft, Aug. 1, 1998) (quoting Letter from CSPP (a coalition of eleven major manufacturing companies)) (Nov. 19, 1997). Article 2 of the U.C.C. has promoted the growth of larger and more national markets for the manufacturing economy. See Fred H. Miller, *The Uniform Commercial Code: Will the Experiment Continue?*, 43 MERCER L. REV. 799, 806 (1992) (noting the U.C.C.'s "substantive excellence" and discussing its success in promoting national uniformity).

⁸ See U.C.C. art. 2B, §§ 2B-103 (Draft, Aug. 1, 1998).

⁹ See U.C.C. art. 2B, §§ 2B-103 (Draft, Feb. 1, 1999), Reporter's Notes § 2.

¹⁰ See Robert W. Gomulkiewicz, *The License is the Product: Comments on the Promise of Article 2B for Software and Information Licensing*, 13 BERKELEY TECH. L.J. 891 (1998) (arguing that Article 2B must affirm licenses in order to prove beneficial).

¹¹ U.C.C. art. 2B, §§ 2B-206 (Draft, Feb. 1, 1999).

¹² According to Raymond Nimmer, the Reporter for the drafting committee, this occurs only when "the competing public interest has sufficient strength and clarity that it precludes the exercise of transactional choice by the parties." See Raymond T. Nimmer, *Breaking Barriers: The Relation Between Contract and Intellectual Property Law*, 13 BERKELEY TECH. L.J. 827 (1998).

not merely unreasonable, before they will be considered unenforceable.¹³ Both academic and industry commentators objected to this aspect of Article 2B, asserting that certain public policies, including some deriving from intellectual property law, should limit enforcement of contractual terms that would undermine these policies.¹⁴ Over strenuous objection from a majority of the Article 2B drafting committee, the two sponsoring entities for the Article 2B project, namely, the American Law Institute (ALI) and the National Conference of Commissioners on Uniform State Laws (NCCUSL), have insisted that Article 2B needed a public policy limitation provision.¹⁵ Bowing to necessity, the drafting committee has recently added such a provision.¹⁶

Even with this and other changes made in response to criticisms, Article 2B's future is clouded. One of its two sponsors, ALI, has decided that Article 2B needs further refinement before ALI will consider approving this model law.¹⁷ In addition, major players from the copyright industries, including the Motion Picture Association of America (MPAA), have made clear their intense opposition to Article 2B.¹⁸ While this article cannot hope to cover all of the controversies about Article 2B, it will discuss three principal issues: the enforceability of mass market licenses of information, the scope of Article 2B, and the public policy override controversy.¹⁹

Regardless of the ultimate fate of Article 2B, the relationship between information licensing law and intellectual property and other public policies will be important for the foreseeable future. The growing use of licenses in commerce for information will have profound implications for the global information economy. As the global village shrinks and the World Wide Web becomes the corner store, it becomes in-

¹³ See RESTATEMENT (SECOND) OF CONTRACTS §208; B.E. Witkin, SUMMARY OF CALIFORNIA LAW (CONTRACTS) §32-34 (9th ed., supp. 1998) (citing the standard under California law). Not only is it a high threshold, the doctrine is only used in rare instances. See Mark A. Lemley, *Beyond Preemption: The Federal Law and Policy of Intellectual Property Licensing*, 87 CALIF. L. REV. 111, n. 181 (Jan. 1999) (citing *Forsythe v. Banc Boston Mortgage Corp.*, 135 F.3d 1069, 1074 (6th Cir. 1997)).

¹⁴ The tensions came to a boil at a conference held at the University of California at Berkeley, where a series of academic and industry leaders pointed to the lack of a clear relationship between Article 2B and federal law. Berkeley Center for Law and Technology Conference on *Intellectual Property and Contract Law in the Information Age: The Impact of Article 2B of the Uniform Commercial Code on the Future of Transactions in Information and Electronic Commerce*, April 23-25, 1998 (conference cited hereinafter as "Berkeley Conference"). Articles published in a dual symposium of the *California Law Review* and the *Berkeley Technology Law Journal* in January 1999 illustrate some of the key commentary regarding the tensions between intellectual property and contract law. For more information on these issues see the *California Law Review* at <<http://clr.berkeley.edu/>> and the *Berkeley Technology Law Journal* at <<http://www.law.berkeley.edu/journals/btlj/>>. See also Federal Trade Commission, letter to Carlyle C. Ring, Jr. and Geoffrey Hazard, Jr. (Oct. 30, 1998), <<http://www.ftc.gov/be/v980032.htm>>.

¹⁵ NCCUSL and ALI are instrumental in the creation of uniform laws, and oversee the drafting process. NCCUSL is an association of commissions on uniform laws, whose task is to determine which areas of the law would benefit from uniformity, and to write and recommend uniform laws to state legislatures for enactment. See <<http://www.law.upenn.edu/bll/ulc/brochure.htm>> and <<http://www.nccusl.org>>. ALI is an organization designed to reduce the uncertainty and complexity of American law, through systematic and periodic publications of restatements of the law. See <<http://www.ali.org>>.

¹⁶ The drafting committee voted on this change and several others at the November drafting committee meeting. For a full report on the November meeting, see Carol A. Kunze, *Report on the November 13-15 Drafting Committee Meeting*, January 12, 1999, <<http://www.2BGuide.com/nov98rpt.html>>. A report on the February 1999 drafting committee meeting should be available by April 1999 at the same site.

¹⁷ Ad Hoc Committee on Article 2B, *Memorandum to ALI Council re: Proposed UCC Article 2B*, (Dec. 1998), <<http://www.2Bguide.com/docs/1298ali.pdf>> ("It is unlikely that an acceptable draft of Article 2B can be prepared in time for the ALI annual meeting in May 1999."). See also NCCUSL press release, *Uniform Law Commissioners Prepare for Final Consideration of UCC Article 2B*, *American Law Institute Council Defers Final Consideration*, January 9, 1999, <<http://www.2BGuide.com/docs/1999prel.html>>. ALI will discuss Article 2B at the May 20, 1999 ALI Membership Meeting, but no vote is scheduled. See <<http://www.2Bguide.com/schedule.html>>.

¹⁸ MPAA, et al., letter to Gene N. Lebrun, President of NCCUSL, December 7, 1998, [Hereinafter December MPAA Letter] <<http://www.2Bguide.com/docs/1298mpaa.html>> ("... we strenuously object to the current draft and direction of proposed Article 2B and will be forced to actively oppose its enactment.").

¹⁹ Other controversial issues include consumer warranty issues or licensor's electronic self-help. See e.g., Bureau of Consumer Protection, Bureau of Competition, Policy Planning, Federal Trade Commission, letter to Carlyle Ring, Jr. and Geoffrey Hazard, Jr., October 30, 1998, <<http://www.ftc.gov/be/v980032.htm>>; Cem Kaner, *Comments on Article 2B*, <<http://www.badsoftware.com/kanernec.htm>>; Julie E. Cohen, *Copyright and the Jurisprudence of Self-Help*, 13 BERKELEY TECH. L.J. 1089 (1998).

creasingly more desirable to have as much international agreement as is achievable. This article hopes to promote consideration of these issues on an international level.

I. VALIDATION OF MASS-MARKET LICENSES

When the computer software industry first emerged, software was either provided to customers as an inducement to buy hardware (a variant on giving away a few razor blades to promote sales of razors) or it was individually licensed to customers who often had specially commissioned it.²⁰ As a mass market in software began to emerge in the 1980's, a number of software developers began commercially distributing their mass-market software in packages containing so-called "shrinkwrap licenses."²¹ These documents typically stated that breaking open the plastic packaging or loading the software onto a computer constituted an acceptance of the stated "license" terms.²² This practice spread through the software industry despite the fact that there were substantial doubts about the enforceability of these licenses, both as a matter of contract law and as a matter of intellectual property policy.

Some caselaw and commentary considered software shrinkwrap licenses to be unenforceable contracts of adhesion, while others opined that without a clear act of assent by the user accepting the terms, shrinkwrap terms had not become part of the contract.²³ In addition, some cases and commentary regarded shrinkwrap license terms as unenforceable insofar as they conflicted with federal intellectual property policy by purporting to deprive users of privileges intended by the U.S. Congress.²⁴ Some also questioned whether state-based shrink-wrap licenses could override federal copyright law's "first sale" principle which provides certain privileges to purchasers of copies of protected works, such as the right to redistribute that copy.²⁵

One important purpose of Article 2B is to clarify that shrinkwrap and other mass-market licenses of software are enforceable as a matter of state contract law, so long as the user has manifested her assent to terms of the contract.²⁶ This assent may be shown by using the product after having an opportunity to know of the license terms. The first appellate court decision to accept Article 2B's approach to mass-market licenses was *ProCD v. Zeidenberg*.²⁷ Zeidenberg purchased a CD-ROM containing telephone directory listings. Inside the box was a form indicating that the information on the disk was licensed for home use only. Because Zeidenberg could have gotten a refund if he didn't like the terms, and because of the potential for market failure if the license wasn't enforced, this court decided to enforce the shrinkwrap license and found that Zeidenberg's loading of the software onto a website breached the home-use license term.²⁸

A second issue in *Pro-CD* was whether federal copyright policy forbade enforcement of this contract clause. Only a few years before, the U.S. Supreme Court had ruled that unoriginal compilation of data, such as white pages listings in telephone directories, was unprotectable by copyright law.²⁹ The Supreme Court's decision had seemed to regard such information, once published, as being in public domain and available to be freely appropriated. A mass-market license term prohibiting the redistribution of telephone listing seemed contrary to the Supreme Court's ruling. Hence, Zeidenberg argued that federal copyright law should "preempt" enforcement

²⁰ Pamela Samuelson, *A Case Study on Computer Programs*, GLOBAL DIMENSIONS OF INTELLECTUAL PROPERTY RIGHTS IN SCIENCE AND TECHNOLOGY 284-285, National Academy Press (Mitchell Wallerstein, Mary Mogee & Roberta Schoen, eds. 1993).

²¹ *Id.* See also Mark A. Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 S. CAL. L. REV. 1239, 1241-1259.

²² For a discussion of the early uses and practices in licensing, see J. Thomas Warlick, IV, *A Wolf in Sheep's Clothing? Information Licensing and De Facto Copyright Legislation in UCC 2B*, 45 J. COPR. SOC'Y 158, 161-162 (1997).

²³ See e.g., *Step-Saver Data Sys., Inc. v. Wyse Technology*, 939 F.2d 91 (3d Cir. 1991); *Arizona Retail Sys., Inc. v. Software Link, Inc.*, 831 F.Supp. 759 (D. Ariz. 1993); L. Ray Paterson & Stanley W. Lindberg, *THE NATURE OF COPYRIGHT—A LAW OF USER'S RIGHTS* 220 (1991).

²⁴ See e.g., *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255 (5th Cir. 1988). See also Nivs Elkin-Koren, *Copyright Policy and the Limits of Freedom of Contract*, 12 BERKELEY TECH. L.J. 93, 102 (1997); Robert P. Merges, *The End of Friction? Property Rights and Contract in the "Newtonian" World of OnLine Commerce*, 12 BERKELEY TECH. L.J. 115, 120-27 (1997).

²⁵ See e.g., David A. Rice, *Digital Information as Property and Product: U.C.C. Article 2B*, 22 U. DAYTON L. REV. 621, 643-646. (1997) (suggesting that Article 2B purposefully confuses sales with licensing, in an effort to overcome the first sale doctrine.)

²⁶ U.C.C. art. 213, §2B-111 (Draft, Feb. 1, 1999).

²⁷ 86 F.3d 1447 (7th Cir. 1996).

²⁸ *Id.* at 1449-1452.

²⁹ *Feist Publications v. Rural Telephone Service Co.*, 499 U.S. 340 (1991). *Feist* invoked the American intellectual property tenet that underlying factual information cannot be owned.

of a state contract since the state law cannot alter the delicate balance of federal copyright law.³⁰

The appellate court, however, disagreed. Judge Easterbrook, writing for the majority, found no preemption problem once he differentiated between rights that were good against only the person in agreement and rights good against the world. Since there was an "extra element" of agreement, the state contract claim was not "equivalent" to a copyright claim. Hence, federal policy did not preempt enforcement of this state contract provision.³¹

The *ProCD* decision has generated controversy, both in its assessment of state contract law and in its preemption analysis.³² Some commentators continue to question whether it is appropriate to enforce shrinkwrap and other mass market licenses for copyrighted works.³³ Although other commentators have endorsed the result of *ProCD*, they would have courts distinguish between socially beneficial shrinkwrap license terms and those that reduce competition and retard innovation.³⁴ Commentators also differ about the extent to which Easterbrook's analysis should be understood to foreclose preemption analysis in all contract cases.³⁵

Some U.S. commentators have suggested that even if shrinkwrap and other mass-market licenses may be enforceable to some extent, it may be necessary to look "Beyond Preemption" to the concept of misuse as a public policy check on abusive licensing practices.³⁶ The misuse doctrine forbids certain kinds of extensions of one's rights under intellectual property law. It is similar to the European civil law 'abuse of right' doctrine, rendering the right temporarily unenforceable when public policy would otherwise be abused.³⁷ Still other commentators have suggested that courts may eventually recognize a 'right of fair breach,' permitting a party to breach contract terms which unreasonably interfere with certain rights.³⁸

There is also reason to believe that Article 2B and the *ProCD* ruling may be untenable outside the American context. According to a research report sponsored by the IMPRIMATUR project, it is unclear to what extent European courts would follow *ProCD*'s validation of shrinkwrap licenses.³⁹ In one early case involving commercial entities, a Scottish court gave effect to shrinkwrap terms allowing a right to return software.⁴⁰ Just across the North Sea, a Dutch court held that a license agreement could not be formed by opening the package of software, even as between commercial entities.⁴¹ A related report noted that the *ProCD* analysis was determined by the nature of licensing practices in the American computer industry: "It is highly doubtful, in view of the legislation and the case law, that a European court would have come to the same conclusion in circumstances similar to those of the *ProCD* case."⁴²

II. CONTROVERSIES OVER THE SCOPE OF ARTICLE 2B

Far more controversial than the validity of software shrinkwrap licenses has been the appropriate scope of Article 2B. From the outset, Article 2B has been concerned

³⁰ Preemption is an American legal concept through which federal law preempts contrary state law. For more information on copyright preemption, see 1 NIMMER ON COPYRIGHT § 1.01[B].

³¹ For more on the extra-element requirement, see 1 NIMMER ON COPYRIGHT § 1.01[B] at 1-15.

³² See e.g., David Nimmer, Elliot Brown & Gary N. Frischling, *The Metamorphosis of Contract into Expand*, 87 CALIF. L. REV. 17 (Jan. 1999); Maureen A. O'Rourke, *Copyright Preemption After the ProCD Case: A Market-based Approach*, 12 BERKELEY TECH. L.J. 53 (1997).

³³ See, e.g., Pamela Samuelson, *Does Information Really Have to Be Licensed?*, 41 COMM. ACM 15 (Sept. 1998).

³⁴ J.H. Reichman & Jonathan Franklin, *Privately Legislated Intellectual Property Rights: The Limits of Article 2B of the UCC*, presented at the Berkeley Conference, available on-line at <http://www.vanderbilt.edu/Law/faculty/reichman/art2B.pdf>.

³⁵ Ray Nimmer agrees with the result in *ProCD*, arguing that preemption will rarely affect contracts. He asserts that statutory preemption only applies to rights against the world, and contract, as inherently between two parties, is not equivalent. See R. Nimmer, *supra* note 9.

³⁶ Mark Lemley, *Beyond Preemption*, *supra* note 10.

³⁷ See e.g. code del la propriété intellectuelle, art. L. 121-3 and art. L. 122-9.

³⁸ Jane C. Ginsburg, *Copyright Without Walls?: Speculations on Literary Property in the Library of the Future*, 42 REPRESENTATIONS 53, 63-65 (1993).

³⁹ IMPRIMATUR, *Formation and Validity of On-Line Contracts*, Institute for Information Law (1998), pp. 9-12. In both of the cases cited by this report, unlike *ProCD*, the licensee was not a consumer.

⁴⁰ *Beta v. Adobe*, (1996) F.S.R. 367.

⁴¹ *Coss Holland B.V. v. TM Data Nederland B.V.*

⁴² IMPRIMATUR, *Contracts and Copyright Exemptions*, Institute for Information Law (1998), p. 31.

with developing licensing rules for the software industry.⁴³ As it became clear that other information providers, such as on-line databases, were also using shrinkwrap (or clickwrap) licenses and had concerns that could be addressed in Article 2B, the scope of the Article 2B project expanded. Proposals to extend it further to encompass all transactions in digital information were followed by arguments that in an age of convergence of media and information technologies, Article 2B should not limit itself to regulating digital information transactions.⁴⁴ What sense did it make for two different laws to apply if a publisher brought out both a print and an electronic version of the same work? Wasn't there a need for a law to regulate licensing of information more generally?

By 1995, the scope of Article 2B extended to all transactions in information.⁴⁵ Reasoning that the unique properties of intangible information made licensing of this fundamentally different from the goods in the manufacturing economy, proponents of Article 2B wanted to develop a new law that unified all of these information transactions under one umbrella.⁴⁶ A new law was arguably needed to address the emerging issues of the information age, and the licensing model developed in the software industry was perceived as a way to promote commerce in information more generally.

Not everyone agreed. As industry groups outside of the software and database industries discovered that Article 2B would apply to their licensing practices, many of them sought exclusions on the theory that different assumptions and practices of their industries made it inappropriate to apply Article 2B rules to them.⁴⁷ Trademark, trade dress, and most patent licensors obtained exclusions, as did the financial services industries.⁴⁸ Some publishing and the motion picture industry groups decided initially to work along with the Article 2B project, and made suggestions for amendments to it.⁴⁹ After the motion picture and broadcast industries, in particular, indicated that Article 2B had not gone far enough to address issues of concern to them, the drafters of Article 2B carved them out of the draft so the Article 2B project could move ahead toward final approval.⁵⁰ The American Law Institute also made known its concerns about the breadth of Article 2B's scope.⁵¹

In November 1998, hoping to forestall opposition to Article 2B by certain copyright industry groups, the drafting committee decided to reduce the Article's scope to "computer information transactions."⁵² The drafters intend for Article 2B to apply to contracts "whose subject matter is (i) the creation or development of, including the transformation of information into, computer information or (ii) to provide access to, acquire, transfer, use, license, modify, or distribute computer information."⁵³ This scope was further refined at the February 1999 meeting, when the Chair proposed the Article apply to an "agreement a purpose of which is to create

⁴³ Article 2B's origins can be traced back to a 1986 study committee of the American Bar Association, which recommended a uniform law governing software contracts. J. Thomas Warlick, *A Wolf in Sheep's Clothing?*, *supra* note 19, at 161.

⁴⁴ See e.g., Reporter's Notes to U.C.C. art. 2B §2B-103 (Draft, April 2, 1996) (discussing whether the Article should cover all transactions in information or be limited to transactions involving information that can be processed automatically, such as digital or other electronic information.)

⁴⁵ J. Thomas Warlick, *A Wolf in Sheep's Clothing?*, *supra* note 19, at 161.

⁴⁶ See generally, U.C.C. art. 2B Preface (Draft, Aug. 1, 1998).

⁴⁷ See also Roland E. Brandel, John B. Kennedy, Morrison & Foerster, *UCC Article 2B: Is "2B" Shorthand for "Too Broad"?*, November 5, 1997, <<http://www.2bguide.com/docs/mof03.html>> ("It is far from self-evident that Article 2B's attempt to impose on such diverse contracts and transactions a broad set of unexpected default rules derived from intellectual property licensing would produce a superior body of law or create improved market efficiencies.")

⁴⁸ U.C.C. art. 2B §2B-104 (2) (Draft, Feb. 1, 1999).

⁴⁹ See e.g., Motion Picture Association of America, February 20, 1997, *Comments on sections 101 through 314 of Uniform Commercial Code—Proposed Article 2B*, <<http://www.2bguide.com/docs/mpaa.pdf>>.

⁵⁰ See Simon Barsky, *Motion Picture Association letter to Carlyle Ring, Jr.*, April 29, 1998, <<http://www.2bguide.com/docs/conn0429.html>> (commenting on the exclusion of the motion picture industry in the April draft, and suggesting changes to the scope). See also the National Music Publisher's Association and the Harry Fox Agency's letter to Raymond T. Nimmer and Carlyle Ring, Jr., Jan. 21, 1999, <<http://www.2bguide.com/docs/012199nmpa.pdf>> (expressing concern over the scope.)

⁵¹ Geoffrey C. Hazard, ALI Director, et. al., *July 1998 Draft: Suggested Changes*, October 9, 1998, <<http://www.2bguide.com/docs/gch1098.pdf>>.

⁵² Carlyle Ring, Jr., Chair of the UCC Article 2B Committee, Raymond T. Nimmer, Article 2B Reporter, *Issues List: Article 2B—ALI Council Meeting*, [December 1998].

⁵³ U.C.C. art. 2B, §2B-102 (8),(9) (Draft, Feb. 1999).

or modify, transfer, license, or provide access to computer information or informational rights in computer information."⁵⁴

The Motion Picture Association of America (MPAA), in conjunction with five other groups representing broadcast, cable, newspaper and magazine publishing, and recording industries, however, had not asked for a reduction in scope of Article 2B; they wanted the drafters of Article 2B to table (i.e., kill off) the project.⁵⁵ They denounced Article 2B's underlying assumption that one licensing law would work for all transactions in information as "fatally flawed in its fundamental premise."⁵⁶

MPAA considers the practices of the motion picture industry to be irreconcilably different from the software industry. While the MPAA letter does not directly say so, it is fair to infer from the letter that MPAA and its allies regard Article 2B as "software-centric." Moreover, the letter partly derives from concerns that the dominance of certain software industry groups in the Article 2B process, including most prominently, the Business Software Alliance (BSA),⁵⁷ has made it nearly impossible for MPAA, et al., to get a fair airing of the issues of concern to them.⁵⁸

MPAA's concern is symptomatic of a larger issue: can one set of rules reflect a diverse number of industries? As far as the entertainment industries are concerned, the answer is no.⁵⁹ Even though many of its core business activities are now excluded from Article 2B as well, the motion picture and broadcasting industries continue to be concerned that Article 2B will be applied by analogy. In addition, they object to the application of Article 2B to their DVD, multimedia products, and interactive services. While the notes to the new scope provision insist that "[o]rordinarily, a court should not apply Article 2B by analogy to these excluded transactions," the MPAA feared that the Reporter's Notes will be insufficient to "restrict the manner in which a court reasons."⁶⁰ Despite the drafter's considerable efforts to soothe Hollywood, this powerful industry will continue to actively oppose its enactment.⁶¹

The opposition of the motion picture and other major copyright industry groups may signal the death knell of the Article. The key to any uniform law is to be a codification of the traditions within a group of industries. The stalwart opposition of a major industries undermines this tenet.

III. PUBLIC POLICY OVERRIDES OF CONTRACT

The debate over Article 2B is a reflection of a larger struggle between public policy and the freedom of contract. Regardless of the fate of this particular model law, the tensions, and the eventual compromise, illustrated in this debate suggest how this larger debate might play out in other venues. There needs to be an international conversation on the extent to which private contracts, or indeed, technical protection systems, can override public policy. Each nation will have to address the fundamental question: how far can private parties contract around public policy?

Some answers have begun to emerge. The European Union, concerned with the competitive significance of ensuring access to interface elements to enable interopera-

⁵⁴ Raymond T. Nimner and Carlyle Ring, Jr., Attachments to February Meeting Agenda Tab 8, Nimner/Ring proposal; SCOPE OF THE ARTICLE, <<http://www.2bguide.com/docs/299t8.html>>. See also Harvey Perlman, Attachments to February Meeting Agenda Tab 9, Scope Provisions: Perlman Draft, Jan. 11, 1999, <<http://www.2bguide.com/docs/199hp.html>>.

⁵⁵ MPAA, RIAA, NAA, NAB, NCTA, MPA, letter to Carlyle Ring and Geoffrey Hazard, September 10, 1998, <<http://www.2bguide.com/docs/v9-98.pdf>>.

⁵⁶ *Id.*

⁵⁷ For an overview of the BSA's position see Business Software Alliance, *Recommended Changes to Article 2B, August 1, 1998 Draft*, October 10, 1998 (discussing the Perlman motion, mass market licenses, warranties, and other issues), <<http://www.2bguide.com/docs/baal098.html>>.

⁵⁸ The BSA's 'ownership' of the process might be best illustrated by the example used to clarify the exclusion of the entertainment industry. The Reporter's Notes to U.C.C. art 2B, §2B-104 (Draft, Feb. 1999) state that the "animated help feature of a word processing program" were still included in the Article's scope. Microsoft, a core member of the BSA, makes the only word processor (of which we are aware) with an animated help feature. This is not the first time the example in the text indicated players in the drafting process. In a section of the August draft designed to explain the application of the unconscionability doctrine, the Reporter's Notes opine that "a contract term purporting to prevent the buyer of a publicly distributed magazine from quoting the magazine's observations about consumer products might be unconscionable." Consumers Union, a prominent consumer organization and critic of Article 2B, publishes a magazine which maintains a no-commercialization policy prohibiting quotation of its reviews in advertisements. See e.g., Consumers Union, letter to Carlyle C. Ring, Jr., (Oct. 8, 1998) (requesting that the Article 2B be shelved).

⁵⁹ December MPAA Letter, *supra* note 15. See also "The Entertainment industry," *Article 2B: More Than Software*, §5.1 et seq., November 5, 1996, <<http://www.2bguide.com/docs/elposition.pdf>>.

⁶⁰ December MPAA Letter, *supra* note 15.

⁶¹ *Id.*

ability of programs, made the decompilation privilege non-waivable by contract.⁶² Likewise, a European contract cannot waive the rights to take insubstantial parts of database.⁶³

Article 2B takes a different approach. It would presumptively validate contractual overrides of default rules of intellectual property law. Insofar as contractual overrides occur in respect of mass-market licenses and there is either only one dominant provider or the same basic terms are used in virtually all mass-market licenses in that market, the license term moves beyond a contractual right and takes on the characteristics of a property right. As Professors J.H. Reichman and Jonathan Franklin explained, "when the restored power of the two-party deal in the digital universe is combined with the power to impose non-negotiated terms, it produces contracts (not 'agreements') that are roughly equivalent to private legislation that is valid against the world."⁶⁴

The first U.S.-based attempt to insert public policy limitations into the text of Article 2B came from Professor Charles McManis. Professor McManis made a motion at an annual meeting of the ALI during a review of the Article 2B project that would treat any term inconsistent with certain federal copyright provisions, such as fair use, unenforceable. It would have required Article 2B to defer to fair use, archival and library rights, classroom performances, and other public policy limitations built into copyright law.⁶⁵ According to McManis, unless public policy limitations are inserted into the proposed law, there could be disastrous consequences—in effect, the shrink-wrapping of American copyright law.⁶⁶

A number of the drafters disagreed, lobbying against the motion on the basis that McManis's fears were unwarranted, since federal law and policy would trump contrary state law under the preemption doctrine.⁶⁷ Despite these efforts, ALI approved the McManis motion in May 1997, though NCCUSL did not. The drafters attempted to resolve the dispute through the addition of a truism: in the August draft, section 2B-105 stated that federal law preempted state law.⁶⁸ While this theoretically responded to the McManis motion, it simply restated the motion in the terms of the motion's critics.

Unsatisfied by the relatively insubstantial protections afforded by the August draft, Professor Harvey Perlman proposed several changes to section 2B-110, which would extend the unconscionability limitation to include making terms "clearly contrary to public policy" unenforceable.⁶⁹ Professor Perlman would also have the courts consider "the extent to which the contract or term resulted from the actual informed affirmative negotiations of the parties."⁷⁰

Professor Perlman brought his ideas in the form of a motion before the July 1998 NCCUSL meeting. Again, the drafters voiced their strong opposition, but the commissioners passed the motion by a vote of 90 in favor to 60 opposed. Nonetheless, the motion allowed some leeway for the drafters to propose alternative language. The drafters responded with a proposed § 2B-105(b), which would read: "A contract term that violates a fundamental public policy is unenforceable to the extent that the term is invalid under that policy." In late September, Professor McManis moved for the drafters to adopt the text of the Perlman motion as originally proposed, and reject the newly proposed language.⁷¹

With pressure to resolve this issue from many corners, Professor Perlman and the drafters developed a compromise before the November meeting. The carefully reworded section would read:

⁶² Council Directive of 14 May 1991 on the legal protection of computer programs, Official Journal of the European Communities no. L 122 9 17/05/91 p. 42 [European Software Directive], Art. 6, §(1), Art. 9, §(1).

⁶³ See Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the legal protection of databases, Official Journal of the European Communities of 27/3/96 no. L 77 p. 20 [European Database Directive].

⁶⁴ J. H. Reichman & Jonathan Franklin, *supra* note 31.

⁶⁵ 17 U.S.C. §§ 107, 108, 110, 117.

⁶⁶ Charles McManis, *The Privatization (or "Shrink-wrapping") of American Copyright Law*, 87 CALIF. L. REV. 173 (Jan. 1999).

⁶⁷ See e.g. Joel Wolfson, *Contracts and Copyright are Not at War*, 87 CALIF. L. REV. 79 (Jan. 1999).

⁶⁸ U.C.C. art. 2B, § 2B-105 (Draft, August 1, 1998).

⁶⁹ Harvey Perlman, UCC Commissioner for Nebraska, *Amendment to Article 2B, Uniform Commercial Code, July 3, 1998 (§ 2B-110. Unconscionable)*, <<http://www.2bguide.com/docs/2B-amend.html>>.

⁷⁰ *Id.*

⁷¹ Charles McManis, *Proposed amendment and comment for November 13-15 Article 2B Drafting Committee meeting, September 30, 1998*, <<http://www.2bguide.com/docs/cm998.html>>.

- b) If a term of a contract violates a fundamental public policy, the court may refuse to enforce the contract, or it may enforce the remainder of the contract without the impermissible term, or it may so limit the application of any impermissible term as to avoid any result contrary to public policy, in each case, to the extent that the interest in enforcement is clearly outweighed by a public policy against enforcement of that term.

Despite the compromise, legitimate concerns remain regarding the high standard the proposal seems to require. The use of the term "fundamental" may provide too much deference to the freedom of contract doctrine.⁷² Some critics fear that the phrase "violates a fundamental public policy" combined with "clearly outweighed" may cause courts to enforce contract terms that frustrate public policy objectives.⁷³

The key to the Perlman compromise may lay not in the black letter law, but in the comments. To be sure, the black letter law was adapted to reflect a wider understanding than the previous unconscionability standard. However, the comments contain an explicit reference to three critical policies: "fundamental public policies such as those regarding innovation, competition, and free expression."⁷⁴ These simple words invoke three sets of public policies which are both strong and necessary to the American tradition.

The comments go on to explain: "Innovation policy recognizes the need for a balance between conferring property interests in information in order to create incentives for creation and the importance of a rich public domain upon which most innovation ultimately depends. Competition policy prevents unreasonable restraints on publicly available information in order to protect competition. Rights of free expression may include the right of persons to comment, whether positively or negatively, on the character or quality of information in the marketplace."⁷⁵ In the following section, this article will review these three policies, to illustrate the sort of interests that might override the freedom of contract in the American system.

A. Innovation

The idea that intellectual property law is part of innovation policy derives from the United States Constitution. It confers upon Congress the power to secure "for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries" in order to "promote the Progress of Science and the useful Arts."⁷⁶ This power has long been understood as an important means to promote the larger public interest by creating incentives for authors and inventors to write and discover.⁷⁷

Over years, the U.S. Supreme Court has acknowledged and advanced innovation policy through its decisions. As the Court explained, "[this] limited grant is a means by which an important public purpose may be achieved. It is intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired."⁷⁸

The Constitutional language has inspired and required public policy limitations designed to achieve the delicate balance between incentives and the public interest. An excellent example is the U.S. Supreme Court's decision to strike down a Florida state "plug mold" statute, partly because of constitutional conflicts with patent policy.⁷⁹ By providing unlimited duration to a boat hull design that had already been sold to the public, the statute conflicted with the American notion that intellectual property protection serves to incent new works for enlargement of the public do-

⁷²The apparent source of the 'fundamental' term is the phrase "clearly outweighed" in THE RESTATEMENT (SECOND) OF CONTRACTS SECTION 178 (1981). Under the Restatement, a term is not enforceable if the interest in its enforcement is clearly outweighed in the circumstances by a public policy against enforcement of such terms. Some commentators, however, find this interpretation strained at best.

⁷³See e.g., American Committee for Interoperable Systems letter to Carlyle Ring, Nov. 30, 1998, <<http://www.2Bguide.com/docs/1198acis.html>>.

⁷⁴U.C.C. art. 2B, §2B-105 (Draft, Feb. 1999), Reporter's Notes §1.

⁷⁵*Id.* at Reporter's Notes §3.

⁷⁶U.S. Const., Art. 1, sec. 8, cl. 8.

⁷⁷See, e.g., Trademark Cases, 100 U.S. 82 (1879) (striking down a federal trademark statute claimed to be authorized under this clause); *Graham v. John Deere*, 383 U.S. 1 (1966) (suggesting that invention standard for patent law has constitutional foundations); *Feist Publications v. Rural Tel. Service Co.*, 499 U.S. 340 (1991) (suggesting that Congress does not have the constitutional power to confer copyright protection on Unoriginal compilations of data).

⁷⁸*Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984).

⁷⁹*Bonito Boats v. Thunder Craft Boats* 489 U.S. 141 (1989).

main.⁸⁰ The patent-like protection was available without regard to the novelty of the design, and was enacted six years after Bonito's design was first sold to the public. This, the Court found, endangered the balance between incentives to create new works and ability to make follow-on innovation from vast repository of literary, artistic, and technological works that are in the public domain.

Economists concur with the view that an optimal production of new and innovative ideas will occur when the right balance is achieved.⁸¹ This is why the American intellectual property system allows for certain exceptions to the property rights accorded inventors and authors, so as to not frustrate opportunities for future development. Unlimited enforcement of contractual terms can endanger this careful balancing. For example, a mass-market contractual clause might purport to prohibit the copying of some information in the public domain. At first glance, it might seem unfair to copy that which has been created through the efforts of another. However, allowing copying of another's unprotectable work is "not 'some unforeseen byproduct . . . It is, rather, the essence of copyright' and a constitutional requirement. . . . It is the means by which copyright advances the progress of science and art."⁸² Under American innovation policy, a clause restricting that right should be unenforceable.

B. Competition

The American antitrust laws seek to protect the public interest in competition by prohibiting acts that exclude competitors from the marketplace or restrict output and raise prices so as to harm consumer welfare. The edict is simple: contracts that unreasonably restrain trade are illegal.⁸³ Over the years, the courts have clarified this rule. For example, actions like price fixing are considered per se violations, while others are subject to the 'rule of reason'—that is, they are violations if they have the intent or effect of harming competition. Companies are forbidden from monopolization, attempted monopolization, and conspiracy to monopolize,⁸⁴ and tying arrangements and exclusive dealing are illegal if they substantially lessen competition.⁸⁵ In this respect, Article 2B now more closely resembles some European Union policies that limit contractual freedom to promote competition and innovation.⁸⁶

Article 2B has the potential to upset the efficient allocation of resources with which antitrust law is concerned. For example, both U.S. and European competition policies favor interoperability of computer systems. In the United States, the copyright concept of fair use permits end users to decompile a copyrighted computer program to achieve interoperability.⁸⁷ The interest in allowing and encouraging compatible products outweighs the copyright interest in preventing the temporary copies necessary to achieve interoperability. A mass-market contractual provision, however, could attempt to override this pro-competitive right. Without public policy interests in the statute, a court might uphold provisions which frustrate the policies supporting interoperability. In the European Union, the right of interoperability explicitly outweighs the freedom of contract.⁸⁸

Similarly, there are times when competition law principles are invoked to require a dominant firm to license its intellectual property to other firms on competitive terms. The European Court of Justice has affirmed a ruling by the European Commission, based on competition policy concerns, that required three television broadcasters to license their respective weekly listings on a non-discriminatory basis.⁸⁹

⁸⁰ The law would have prevented both the making and selling of the boat hull design, with a perpetual term. Fla. Stat. § 559.94 (1987).

⁸¹ See, e.g., Frederick Wassen-Bolton, Kenneth C. Baseman, & Glenn A. Woroch, *POINT: Copyright Protection of Software Can Make Economic Sense*, 12 *COMPUTER LAW* 10 (Feb. 1995); Mark A. Lemley, *The Economics of Improvement in Intellectual Property Law*, 75 *TEX. L. REV.* 989, 997-998 & n.32 (1997); William Landes & Richard Posner, *An Economic Analysis of Copyright Law*, 28 *J. OF LEGAL STUD.* 325, 326 (1989).

⁸² *Feist*, 499 U.S. at 349.

⁸³ Sherman Act § 1.

⁸⁴ Sherman Act § 2.

⁸⁵ Clayton Act § 3.

⁸⁶ See e.g. Council Directive of 14 May 1991 on the legal protection of computer programs, Official Journal of the European Communities no. L 122, 17/06/91 p. 42 [European Software Directive], Art. 6, §(1), Art. 9, §(1); Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the legal protection of databases, Official Journal of the European Communities of 27/3/96 no. L 77 p. 20 [European Database Directive].

⁸⁷ *Sega Enterprises Ltd. v. Accolade, Inc.*, 977 F.2d 1510 (9th Cir. 1992). See also *Atari Games Corp. v. Nintendo of Am., Inc.*, 975 F.2d 832 (Fed. Cir. 1992).

⁸⁸ European Software Directive, Art. 6, §(1), Art. 9, §(1).

⁸⁹ *Radio Telefis Eireann and Independent Television Publications Ltd. v. Commission of the European Communities*, Court of Justice of the European Communities, 1995 ECJ Celex Lexis 3670, (April 6, 1995).

The Commission determined that the broadcasters were abusing their dominant position in the Irish market by refusing to license the listings to a comprehensive weekly TV guide. This too recognizes the importance of competition policy as a basis for overriding some contractual terms.

C. Free Expression

Like many nations, the U.S. Constitution finds freedom of expression to be a fundamental right.⁹⁰ Yet, freedom of contract, as expressed in Article 2B, raises the specter of conflicting with free speech concerns embodied in the American Bill of Rights.

Despite the high regard the American tradition has held for free speech rights, it is not without limitations. Some contractual restrictions on freedom of speech have been upheld. For example, the U.S. Supreme Court found the government's interest in a speech limiting contract signed by an American intelligence agent outweighed the agent's interest.⁹¹ Likewise, the U.S. Supreme Court has upheld a damage award when a newspaper violated an agreement to keep secret the name of a "leak" about a political figure.⁹²

While it may be reasonable to uphold a contract that is limited to two parties, a mass-market contract raises more compelling concerns. When a term is non-negotiated and distributed with every instance of the license, what was compelling becomes almost overwhelming. For example, Network Associates, an American developer of anti-virus utilities, licenses software on the basis that "the customer will not publish reviews of the product without prior consent."⁹³ If this term was enforced, no criticism of the product could be effectively voiced.

CONCLUSION

Article 2B of the UCC is the latest salvo in the continuing struggle between the freedom of contract and public policy. Initially it proposed to allow for a freedom to contract in all transactions of information, limited only by unconscionability. The sweeping scope and unfettered freedom of the proposed model law, however, raised questions and concerns from a host of critics. Numerous industries sought to be removed from the scope of the article, and commentators pointed to legal and policy problems with the proposed rules.

These pressing questions ultimately led to a sharp reduction in the scope of the article, and the introduction of explicit public policy overrides into the model law. The drafters and their critics compromised on the model law, and allowed the statute to recognizing and promote innovation, competition and free expression.

These principles are the bedrock upon which much of the modern information economy is based. For any nation to endorse supremacy of freedom of contract without the limitations of public policy, the stability of this bedrock could be threatened. Unfettered contractual provisions may be used to overprotect intellectual property, reduce competition and frustrate free expression. Without these policies, investment in innovation and the growth of commerce may be inhibited, causing investment to go elsewhere.

New rules inevitably raise issues that need to be examined closely, including the proper relationship between freedom of contract and public policy. The global nature of the information economy needs a stable and widely accepted set of predictable, fair contract rules. This article aims to provide intellectual property and commercial law specialists from around the world with useful information about a U.S. initiative that may be offered as a model law for the global information economy. It is important for an international conversation to be had on its main contours.

⁹⁰U.S. Const., Amend. I. This right is respected in a number of national and international conventions. See, e.g., Article 10 of the European Convention for the Protection of Human Rights and Article 19 of the International Covenant on Civil and Political Rights. The European Parliament's guidelines for the directive on copyright in the information society have also suggested that these rights be considered. See Lucie Guibault, *Preemption Issues in the Digital Environment: Can Copyright Limitations Be Overridden By Contractual Agreements under European Law?*, 1998 MOLENGRAFICA § 1.1.1.

⁹¹ *Snapp v. United States*, 444 U.S. 507 (1980).

⁹² *Cohen v. Cowles Media*, 501 U.S. 663 (1991).

⁹³ James Glick, *It's Your Problem Not Theirs*, <<http://www.around.com/agree.html>> (discussing subscribing to Microsoft's Slate on-line magazine). Another example cited is the Microsoft Agent software license, which contains a clause forbidding use of the program to disparage Microsoft.

PREPARED STATEMENT OF PHYLLIS SCHLAFLY, PRESIDENT OF EAGLE FORUM

Thank you for accepting my statement regarding H.R. 354, the Collections of Information Antipiracy Act, on behalf of Eagle Forum, a national policy organization.

As a national membership organization of some 80,000, Eagle Forum is well aware of the importance and usefulness of collections of information in computer databases. Computer databases make it possible for us to communicate easily with our members and carry out our activities. As the author of 16 books, I am well aware of the importance and usefulness of legal protections of intellectual property, particularly through the copyright protection established in the United States Constitution.

We urge you to reject H.R. 354 as misguided and dangerous legislation. It would lay the groundwork for corporations to control, manipulate, and market our most intimate medical records.

H.R. 354 would grant a new federal right to corporations that build databases of patients' medical records. It would protect the corporations' control of these databases by threatening to prosecute anyone who interferes with this new right. It would impose draconian penalties of a \$250,000 fine and five years in jail for the first infringement, and twice that for the second.

By creating new federal crimes, H.R. 354 would significantly expand the jurisdiction of the already activist federal judiciary. H.R. 354 would give federal judges the power to seize assets without a finding of guilt, and impose huge fines and prison sentences, for the mere copying of a part of a corporation's database.

We oppose creating these new rights for all databases, but this bill is particularly offensive because of its effect on personal medical records, which are now being massively collected in databases. The provisions of H.R. 354 certainly are not what we had in mind when we heard Members of Congress talk about "health care reform" or a "patient protection act." We had hoped that the 106th Congress would address the health care and HMO issue by giving more power to patients, but H.R. 354 takes away power from patients and gives vast new powers to corporations collecting databases containing their personal medical information. Corporations should not have the power to control data about individuals' doctor visits, diagnoses, prescriptions, etc.

We all know that the right of writers to get legal protection, called a copyright, is a precious constitutional right. But we also know that this right is available only to authors of original writings; it is not available to those who collect information or data. The Supreme Court correctly and unanimously ruled in *Feist Pub. Inc. v. Rural Telephone Service Co.* (499 U.S. 340, 1991) that, under the U.S. Constitution, copyright protection is granted only to authors who create new works, not to corporations that merely collect data and, therefore, the phone companies do not own their listings of phone numbers just because they spent money collecting them. The Court rejected the so-called "sweat of the brow" argument that corporations are entitled to legal protection of their collections of telephone numbers just because they expended funds and resources to compile them.

H.R. 354 does not assert copyright protection for databases, or ownership by the corporations that compile them, because that language would probably not be constitutional. Instead, H.R. 354 would create a brand new federal right in "collections of information," and make it a powerful right supported by federal police and judicial power to prosecute for crimes that carry, extraordinary penalties.

Cui bono? It appears that the primary push for this bill comes from the American Medical Association (AMA), which has built very profitable databases, such as its database of the Medicare codes that all health providers are required to use, and its database of all doctors, both members and nonmembers, stored with all sorts of information. The marketing of databases is a very profitable part of the AMA's annual \$230 million budget, since only a fourth of physicians are full dues-paying members and they provide less than a third of the AMA's revenue.

In August 1997, the AMA lost a court case (*Practice Management Information Corp. v. AMA*, 121 F.3d 516) in which the issue was whether the AMA could control and charge fees for the sale of materials containing the Medicare codes that all providers are required to use. The court held that the AMA had "misused" its rights in the Medicare code database. The AMA then looked to Congress to arrange a legislative fix.

The Collections of Information Antipiracy Act was introduced on October 9, 1997. Appearing as a key witness on February 12, 1998, the AMA testified in enthusiastic support of this bill, stating that the purpose of the Collections of Information Antipiracy bill is "to protect collections of information, including databases such as ours." The AMA testimony makes clear that the Collections of Information bill would create new rights not constitutionally available under copyright laws.

However, the AMA demanded a significant change in wording. As originally introduced, the bill would have applied its extraordinary penalties against any person who interferes with "all or a substantial part of a collection of information" on a database. The AMA demanded that the term "substantial part" be changed by inserting the words "*qualitative or quantitative*" to modify "substantial," which of course would effectively eviscerate the requirement that infringement of a database be truly "substantial." The AMA testimony makes clear that this change was designed to ensure its control of its database of Medicare codes.

The next online version of the bill was reported to the House on May 12, 1998, and it then included the key phrase from the AMA testimony. Section 1201 then read: "Any person who extracts, or uses in commerce, all or a substantial part, *measured either quantitatively or qualitatively*, of a collection of information gathered, organized, or maintained . . ."

Unable to get copyright protection for its databases, and having lost in court the exclusive control of the Medicare database that the AMA was demanding, the AMA is now trying to get Congress to create a new federal right called "collections of information," and use federal prosecutors and courts to defend its exploitation of this new right.

There are obviously thousands of organizations and businesses that have created "collections of information" on databases and depend on them for doing business of all kinds. H.R. 354 has tried to accommodate some other interests by giving special exclusions to telephone listings, stock quotes, and the news media, and may be considering exclusions for universities and libraries. But H.R. 354 does not exclude medical records, which is the area of most concern to the average American because medical records contain the most personal, private, intimate information.

The Collections of Information bill passed the House last year, but failed to pass the Senate. When the sponsor, Rep. Howard Coble, reintroduced it as H.R. 354, he said that medical information is one of the focuses of the bill and that its purpose is to get around "recent cases."

Databases of personal information are a tremendous financial asset because they can be used for so many commercial purposes such as targeted marketing and health insurance underwriting. Since the health care database market is growing by a billion dollars a year, all kinds of corporations in the health care industry, including HMOs, already have ample incentives to build databases and make big money off of them, and they don't need Congress to legislate any new incentives.

Patients, physicians, small businesses, and bank depositors all stand to lose big if this bill passes. Small businesses could be ruined by politically-connected competitors alleging that a customer list was copied. H.R. 354 would even encourage banks to develop databases about personal deposits and withdrawals, despite the recent public outrage over the Know Your Customer regulation. H.R. 354 would give banks a financial incentive to accomplish that same obnoxious goal.

Ambiguous language in H.R. 354 preempts state laws that currently ensure legitimate access by patients and physicians to their medical records. HMOs would be able to deny access, impose delays, or charge huge fees before providing essential medical records to patients or their physicians.

Most states have laws that guarantee patients the right to access their own medical records, but H.R. 354 would preempt these laws even though it exempts certain other state laws. H.R. 354 purports to exempt state privacy laws, but that exemption would be overridden by another bill that Congress is expected to pass, the Patient Protection Act, H.R. 448.

By giving all these new rights to companies that build databases, H.R. 354 will make it difficult, expensive or impossible for individual Americans to access or restrict usage of their own personal information. We don't want the federal government to create new federal rights or incentives to encourage corporations to collect, manipulate, control, or market databases of medical records.

We urge you to reject H.R. 354 because of its dangerous and inappropriate creation of new federal rights and new federal crimes that will be extremely hurtful to individual Americans, particularly patients. Eagle Forum joins with the more than a hundred organizations, from Amazon.com to Yale University, that strongly oppose this bill.

PREPARED STATEMENT OF THE ASSOCIATION OF AMERICAN PHYSICIANS & SURGEONS

Mr. Chairman and Members of the Subcommittee:

My name is Jane Orient, M.D. I am a practicing internist from Tucson, Arizona, and serve as the Executive Director of the Association of American Physicians & Surgeons ("AAPS").

AAPS is a nationwide organization of physicians that is devoted to defending the traditional patient-physician relationship. AAPS eschews all business revenue, so that membership dues constitute virtually all of AAPS's funding. AAPS frequently testifies before Congress and has succeeded in landmark litigation including *AAPS v. Clinton* (concerning the Health Care Task Force) and *U.S. v. Rutgard* (concerning Medicare prosecutions).

AAPS respectfully submits this testimony to urge this Subcommittee to reject H.R. 354 due to its adverse impact on medical care. AAPS regrets that this Subcommittee did not view this patient issue to be sufficiently important to allow my live testimony.

The medical treatment of a patient is often dependent on the quality of the data available about such patient. We have neither the time nor the resources to conduct new tests every time a patient needs treatment. Both cost and the need for prompt treatment preclude the duplication of medical tests. Patients and their physicians must be able to obtain efficient access to their medical records in order to ensure high quality medical care.

The medical data market is growing by a billion dollars per year. It entails data about patient conditions and data about treatments rendered. It includes profiles of physicians and coding systems that physicians must use to be paid for services rendered. It encompasses prescription data and hospital usage data. All of this data is important to patients, and to their physicians in rendering treatment.

Certain special interests would like to claim exclusive rights to this valuable data. They would like to sell it at enormous profits. They would like to exclude their competitors from accessing this data.

Unfortunately, the AMA is one of those special interests. Now dominated by business activities, the AMA would like to sell its data at enormous profits and limit competition. The AMA thereby adds unnecessary costs to physicians and patients, who bear the charges. Physicians must bear the costs of royalties to the AMA for manuals, software, and seminars for the Current Procedure Terminology (CPT) system, which is imposed on physicians by force of law.

HMOs are another special interest. They would profit enormously from exclusive control over the medical data of their enrollees. If HMOs can control the medical records of a patient, then they can minimize the patient's ability to see physicians outside the HMO.

Most states recognize the importance of medical data to the patient and to quality medical care in general. States require by law that HMOs and others provide patients and their physicians full access to their medical records. The right of patients to seek quality medical care requires that such patients and their physicians not be excluded from their medical records.

Yet H.R. 354 does exactly that. It creates a new federal right of HMOs and other corporations to exclude patients and their physicians from medical records. It creates a new federal right of the AMA to exclude physicians and others from medical coding systems necessary to comply with applicable law.

H.R. 354 Section 1402 expressly states that "[a]ny person who extracts . . . all or a substantial part, measured quantitatively or qualitatively, of a collection of information gathered, organized, or maintained by another person . . . so as to cause harm to the actual or potential market of that other person" shall be subject to severe criminal and civil penalties. As a practicing physician, I can assure you that physicians "extract . . . all or a substantial part" of medical data dozens of times each day, to the harm of the potential market of managed care organizations. Often physicians must extract all of the medical records of a patient before providing significant treatment.

Moreover, H.R. 354 Section 1405(b) preempts the state laws that ensure legitimate access by patients and their physicians to their medical records. State laws governing and allowing extraction of such medical records are omitted from the lengthy list of state laws that are not preempted. Section 1405(b) does refrain from preempting "access to public documents," but fails to add "access to medical records" as well.

The result of these Sections will be a race to build medical databases in order to exclude others from those databases. The corporation that controls the patient data will control the patient, and patients' ability to select their own physician will be far more limited than it is now. The widespread frustration that patients express about managed care, on Election Day and otherwise, will become far worse under H.R. 354.

MISINFORMATION ABOUT THE BILL

Let me now correct the misinformation that is being promulgated about this bill. The AMA, in its testimony before this committee in February, 1998, stated that the bill was necessary to protect "the AMA's key databases," including the CPT. What the AMA failed to explain, however, is that physicians are required by law to use this CPT database pursuant to an exclusive contract between HCFA and the AMA. H.R. 354 would forever require physicians to pay royalties to the AMA simply to acquire a database system that has the force of law.

This absurd result, embodied in H.R. 354, was flatly rejected by the federal Court of Appeals for the Ninth Circuit in August 1997 (*Practice Management Info. Corp. v. AMA*). That appellate court ruled that the AMA's demand for royalties for a database that HCFA exclusively requires by law constituted "misuse" by the AMA of its rights.

Lo and behold, two months later this bill was initially introduced as a legislative fix for the AMA, and six months later the AMA was providing the key testimony in support of this bill.

The AMA conveniently omitted from its testimony how the Court had harshly criticized its conduct, and denied the AMA enforcement rights. Undaunted, the AMA insisted in its testimony on a further benefit in H.R. 354 to maximize its control over the database. Initially the bill only applied to extractions of a "substantial" portion of the database. The AMA demanded and obtained dilution of this requirement to include "qualitative or quantitative" substantiality, thereby leaving open the possibility that extraction of only a few important records would be criminalized. With the penalty of 5 years in prison terrorizing patients and their physicians, no one will dare take a chance in extracting any data whatsoever.

Other misinformation about H.R. 354 is the claim that it does not create ownership rights in databases. It does create the right to exclude access by others, which is considered the most important right of ownership. This bill would allow HMOs and other corporations to exclude physicians from accessing medical records necessary to treat their patients. This bill would allow the AMA to exclude physicians from accessing Medicare codes necessary to comply with federal law. This bill would impose a prison sentence of 5 years and a fine of \$250,000 if any physician trespassed upon this new federal right. Any hairsplitting distinction between this federal right to exclude and legal ownership is disingenuous.

The introduction of this bill by Congressman Coble expressly referenced medical information, and yet some claim that this bill does not affect medical data. But the bill carefully excludes many types of data from its scope, from telephone directories to stock quotes to news reports. Expressio unius est exclusio alterius. Medical data should be expressly excluded along with the others.

CONCLUSION

In conclusion, Mr. Chairman, I am grateful for this opportunity to explain the adverse impact of H.R. 354 on medical care. Voters' concerns about their medical care have resounded loud and clear in recent elections, beginning in 1994. This Subcommittee should reject H.R. 354 as a special interest bill that would be detrimental to the public's access to quality medical care.

ASSOCIATION OF AMERICAN
PUBLISHERS, INC., (AAP),
Washington, DC, March 30, 1999.

Hon. HOWARD COBLE, *Chairman,*
Subcommittee on Courts and Intellectual Property,
Committee on the Judiciary,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: On behalf of the Association of American Publishers ("AAP"), I respectfully request that you include this letter as part of the hearing record for the Subcommittee's March 18, 1999 hearing on H.R.354, the proposed "Collections of Information Antipiracy Act."

As the principal national trade association of the U.S. book publishing industry, AAP represents more than 200 member companies and organizations that include most of the major commercial book publishers in the United States, as well as many small and nonprofit publishers, university presses and scholarly societies.

AAP members publish hardcover and paperback books in every field, including general fiction and non-fiction, poetry, religion, children's books, and general and specialized reference works. In addition, AAP members publish scientific, medical,

technical, professional and scholarly books and journals, as well as textbooks and other 'instructional and testing materials covering the entire range of elementary, secondary, postsecondary and professional educational needs. Apart from print publications, many AAP members publish computer programs, databases, and other electronic software for use in online, CD-ROM and other digital formats.

In February of last year, AAP submitted to the Subcommittee its views on H.R.2652, a then-pending earlier version of H.R.354. Since that time, AAP has closely monitored House and Senate action with respect to database protection legislation from the dual perspectives of its membership, which includes both producers and users of databases.

IN GENERAL

AAP members agree that "free-riding" which destroys the incentives for investing in database creation and distribution ultimately harms users as well as producers and, therefore, is against the public interest. They also agree, however, that legislation intended to deter, punish and remedy such activity must not sweep legitimate users and uses of databases within its ambit.

Briefly stated, the position of AAP is that:

- Legislation to protect databases against "free-riding" is needed because of the 'inadequacy of extant legal protections under U.S. law.
- Through its adoption of a "misappropriation" approach to such database protection, H.R.354 provides a sound framework from which to address related issues.
- Database protection legislation must balance the needs of users and producers of databases.
- Some modifications to H.R.354 are needed to achieve this balance.

AAP members recognize that extant legal protections copyright, contractual licensing, trademark and state misappropriation law, and technological measures—do not provide the certainty of protection for their investments in developing, maintaining and distributing databases. Particularly as a result of the Supreme Court's *Feist* decision, they realize that some databases are clearly no longer protectible, while the protection available for others is uncomfortably thin and uncertain.

In addition, AAP members who produce databases are concerned about the language and intent of the European Directive's statement that "the right to prevent unauthorized extraction and/or re-utilization in respect of a database should apply to databases whose makers are nationals or . . . residents of third [non-EU] countries . . . only if such third countries offer comparable protection to databases produced by nationals of a member state . . ." [emphasis added]. Without legislation providing comparable protection in the United States, databases produced by U.S. entities are in jeopardy of wholesale takings in Europe.

Accordingly, AAP's members agree that a balanced legislative solution is needed to provide protection against unauthorized takings of substantial portions of databases to encourage the continued investment in the creation and maintenance of databases and to discourage "free-riders" and pirates.

Publishers who create databases, as well as those who are secondary users of databases and their contents for transformative editorial purposes, both view the "misappropriation" approach embodied in H.R. 354 as a workable framework for protecting databases without denigrating the interests of database users. They believe it can satisfactorily address the key concerns of both groups, *provided* that a number of revisions are made as discussed below.

DEFINITION OF "COLLECTION OF INFORMATION"

AAP is concerned that the bill's definition of "collection of information" in Section 1401(1) could be read to embrace works of biography, history, fiction and other kinds of narrative literary prose, despite the fact that the "purpose" in collecting and organizing factual information to create such works is clearly different from that which is generally associated with the creation of what is commonly understood to be a "database."

If, for example, a work of biography or history is considered a "collection of information" for purposes of this legislation, any subsequently-published works that cover the same subject and in any way use the earlier work as a source of factual information would arguably be subject to claims of misappropriation under Section 1402. Such a result would be undesirable and beyond the scope of the specific concerns cited to justify this legislation.

Last year, in explaining the legislative intent behind this same definition of "collection of information," the House Committee Report on H.R.2652 (H.Rept. No. 105-525, p. 13) and subsequently the Section-by-Section Analysis of the Manager's Amendment to H.R.2281 (H.Committee Print Serial No.6, pg. 66) (concerning the same legislation passed by the House as Title V of H.R.2281) recognized the relevant distinction in clarifying what was and what was *not* intended to be considered a "collection of information" for purposes of database protection legislation. The relevant portion of the Analysis stated:

"The definition is intended to avoid sweeping too broadly, particularly in the digital environment where all types of material when in digital form could be viewed as collections of information. It makes clear that the statute protects what has been traditionally thought of as a database, involving a collection made by gathering together multiple discrete items with the purpose of forming a body of material that consumers can use as a resource in order to obtain the items themselves. *This is in contrast to elements of information combined and ordered in a logical progression or other meaningful way in order to tell a story, communicate a message, represent something, or achieve a result. Thus, a novel would not be considered a 'collection of information' even if it appears in electronic form, and therefore could be described as made up of elements of information that have been put together in some logical way.*" (emphasis added)

This legislative history will be more meaningful if the distinction it describes is explicitly reflected in the statutory language. Therefore, in order to ensure that the scope of the legislation is not improperly expanded by an overbroad reading of the term "collection of information," AAP urges the Subcommittee to add the following sentence at the end of Section 1401(1):

"The term does not include a work of narrative literary prose."

TRANSFORMATIVE USES

AAP views the new "Additional Reasonable Uses" provision in Section 1403(a)(2) of H.R.354 as a welcome recognition of the need for a general "fair use"-type standard that will apply beyond the scope of the bill's specific "Permitted Uses" provisions to ensure that the legislation's protections against misappropriation do not prohibit legitimate "transformative uses" of databases and their contents.

Such secondary uses, which take materials initially used by one person and employ them in a different manner or for a different purpose that adds value to the materials, go beyond mere copying of information for a socially-useful purpose and are intrinsic to the creative work of authors and publishers of books. A "fair use"-type limitation on database protection should encourage, as well as permit, such uses in the same way that the "fair use" doctrine (and its codification in Section 107 of the Copyright Act) does with respect to copyrighted works. *See, e.g., Leval, Toward a Fair Use Standard*, 103 HARV.L.REV. 1103, 1111 (1990); *Campbell v. Acuff-Rose*, 114 S.Ct. 1164, 1171 (1994).

In its current form, however, the new provision is written too narrowly and is qualified by too many absolute conditions to serve as an appropriate safeguard for the kinds of "transformative uses" of databases and their contents that may be made by an author in creating a work of narrative literary prose. For example, the provision's application to only a "use or extraction of information done for the purpose of illustration, explanation, example, comment, criticism, teaching, research, or analysis" is unjustifiably exhaustive of the creative possibilities of legitimate "transformative uses" for such an endeavor. The limitation of the provision's coverage to an "individual" act of the kinds enumerated is similarly inappropriate with respect to "transformative uses," and the requirement that such "individual act of use or extraction" must be "in an amount appropriate and customary for that purpose" would establish an ambiguous quantitative limitation for "transformative uses" that will tend to promote uncertainty and dispute regarding their legitimacy in particular instances.

In addition to these conditions, Section 1403(a)(2) permits the individual act or use of information in question only "if it is reasonable under the circumstances." Among the four "factors" to be considered in determining whether the act meets this standard are two that raise some notes of caution in the context of AAP's concern regarding their application to works of narrative literary prose.

With respect to the factor enumerated in subparagraph (i) regarding the "extent to which the use or extraction is commercial or nonprofit," AAP notes that this should not be taken to automatically disfavor "commercial" uses of information since, as the Supreme Court has noted in the context of copyright protection, "the more transformative the new work, the less will be the significance of other factors,

like commercialism, that may weigh against a finding of fair use." *Campbell, supra*. The concept might be expressed more clearly and appropriately if the first factor were modified to mirror the first factor in Section 107 of the Copyright Act, referring to "the purpose and character of the use or extraction, including whether such use is commercial or nonprofit."

With respect to the factor enumerated in subparagraph (iv), if there is a truly "transformative use" of the information at issue, AAP questions the relevance of whether the collection from which the use or extraction is made "is primarily developed for or marketed to persons engaged in the same field or business as the person making the use or extraction." This criterion apparently addresses situations where, even in the absence of a commercial marketing purpose on the part of either the secondary user, the secondary use of a database or its contents may potentially supersede the need for the original because the secondary user is within the community of intended users of the original. But, if the secondary use "merely supersedes the objects" of the original database source, rather than adding something new with a further purpose or different character, it would generally not be considered a "transformative use." *Campbell, supra*. Where the secondary use is a "transformative use," the fact that the secondary user is within the community of intended users of the database would not, in itself, appear to be meaningful.

Finally, even if an act of use or extraction is determined to be reasonable and otherwise within the scope of the conditions under Section 1403(a)(2), the provision would, under no circumstances, apply where the used or extracted portion of a database "is offered or intended to be offered for sale or otherwise in commerce and is likely to serve as a market substitute for all or part of the collection from which the use or extraction is made." This prohibition is troubling because its terms would preclude the use of a database or its contents for the creation of any competitive product, even when such use is "transformative" rather than merely repackaging or republishing. Any use of particular pieces of data can be said to substitute for the portion of the database that is used. For example, extraction of Mark McGwire's hitting records from a baseball encyclopedia for use in a biography may, for the limited purpose of examining his statistical record, substitute for the Mark McGwire entry in the encyclopedia. The exclusion thus swallows the "reasonable use" rule.

Moreover, this "market substitute" exclusion from the "reasonable uses" provision demonstrates the need for AAP's initial request to explicitly exclude works of a narrative literary nature from the definition of "collection of information?" and, therefore, from the scope of this legislation's misappropriation protection. Once again, for example, if a work of biography or history is considered a "collection of information?" for purposes of this legislation, any subsequently-published biographical or historical work that covers the same subject and in any way uses the earlier work as a source of factual information would arguably be subject to claims of misappropriation, based simply on consumers' preference for the later work over the earlier one. This would be true regardless of the transformative nature of the later work's use of the information at issue. Such a result cannot be squared with the intended purpose of this legislation.

AN ALTERNATIVE RESOLUTION

AAP appreciates the difficulties in crafting a "fair use"-type provision which will function properly for the purposes of this legislation, and recognizes that such difficulties are compounded by the relative significance Section 1403(a)(2) is likely to have in balancing the many diverse interests affected by this legislation. To the extent that these difficulties might be somewhat alleviated (or at least not further compounded) by addressing elsewhere in the legislation the comparatively narrow stated concerns of book publishers regarding works of narrative literary prose,¹ AAP suggests that, in parallel to the definitional change discussed above, the "News Reporting" provision in Section 1403(e) of H.R.354 should be amended as follows:

(e) **NEWS REPORTING AND TRANSFORMATIVE EDITORIAL USES**—Nothing in this chapter shall restrict any person from extracting or using information for the sole purpose of

(i) news reporting, including news gathering, dissemination, and comment unless the information so extracted or used is time sensitive and has been gathered by a news reporting entity, and the extraction or use is part of a consistent pattern engaged in for the purpose of direct competition; or,

¹ AAP members continue to struggle with issues raised by the potential application of this legislation to special kinds of works of narrative literary prose, such as anthologies and critical editions. We hope to further explore these issues with the Subcommittee and its staff as they consider further revisions to H.R.354.

(ii) *publication as part of a work of narrative literary prose, unless such work, as a whole, is likely to serve as a market substitute for the collection of information from which the information is extracted or used.*

The proposed changes (in *italics*) to Section 1403(e), together with those urged by AAP with respect to the definition of "collection of information" in Section 1401(1), would clarify that a work of narrative literary prose should not, by itself, be considered a "collection of information" for the purposes of this legislation, and that the extraction or use of factual information from a database for publication as part of a work of narrative literary prose would not except in the unusual circumstances of direct market substitution of the database by such a work, present any basis for a claim of misappropriation by the owner of the database from which the information was extracted.

CIVIL REMEDIES

AAP questions the propriety of the language in Section 1406(c) which would authorize a court, as part of a final judgment or decree finding a violation of the bill's prohibition against misappropriation, to "order the remedial modification . . . of all copies of contents of a collection of information extracted or used in violation of the prohibition.

Although this issue will obviously not have a direct impact on book publishers if our other proposals for revision are adopted, AAP nevertheless questions the propriety of the "remedial modification" concept insofar as we understand it to mean that the court would be authorized to order a defendant publisher to make editorial changes in the content of its collection of information.

As a matter of form, we would note that this concept, if it is to be addressed at all, should be addressed under subsection (b), which deals with injunctions, rather than under subsection (c), which deals with "Impoundment."

On the more important issue of substance, however, we would note that granting the court such authority may raise serious First Amendment questions regarding government censorship and compelled speech. For that reason, AAP would urge the deletion of this authority.

AWARDS OF COSTS AND ATTORNEY'S FEES

Although Subsection 1406(d) generally leaves to the discretion of the court whether to award costs and attorney's fees to the prevailing party in a civil action for misappropriation, it *mandates* such an award where the court determines that the civil action was brought "in bad faith" against a non-profit educational, scientific, or research institution, library, or archives, or an employee or agent of such an entity, acting within the scope of his or her employment.

If the award mandate is intended to deter the filing of misappropriation lawsuits "in bad faith," AAP believes it should apply equally to *all* defendants in "bad faith" civil actions, regardless of their for-profit or non-profit status, since we are aware of no reason to believe that non-profit entities and their representatives require or deserve more protection from "bad faith" lawsuits than for-profit entities and their representatives. AAP's membership includes both for-profit and non-profit publishers, and it can see no sound public policy basis to distinguish among its members on the basis of their for-profit or non-profit status for purposes of the award mandate.

On behalf of AAP, I want to thank you for the fair and open manner in which you have led the Subcommittee in crafting H.R.354 and previous versions of database protection legislation. We look forward to meeting with you and your staff to discuss these issues and other concerns that may arise as the legislative process proceeds.

Sincerely,

ALLAN R. ADLER, *Vice President
for Legal and Governmental Affairs.*

ASSOCIATION OF AMERICAN
UNIVERSITIES (AAU),
Washington, DC, April 5, 1999.

Hon. HOWARD COBLE, *Chairman*,
Hon. HOWARD L. BERMAN, *Ranking Member*,
Subcommittee on Courts and Intellectual Property,
Committee on the Judiciary,
House of Representatives, Washington, DC.

DEAR CHAIRMAN COBLE AND CONGRESSMAN BERMAN: The Association of American Universities, American Council on Education and National Association of State Universities and Land-Grant Colleges (the "higher education associations") are pleased to offer these comments on the Administration's testimony presented by Andrew J. Pincus, General Counsel of the Department of Commerce, at the March 18, 1999 hearing on H.R. 354 (the "Pincus Statement"). These comments are submitted for the record of that hearing in response to requests made by members of the Subcommittee at the hearing.

The higher education associations agree wholeheartedly with the basic principles and concerns presented in the Pincus Statement. The position articulated by Mr. Pincus and the issues that he identifies are fully consistent with the principles and concerns set forth in the testimony of University of Rochester Provost Charles E. Phelps on behalf of the higher education associations. In particular, we share the Administration's views that:

- The focus of new database protection legislation should be "effective legal remedies against 'free riders' who take databases gathered by others at considerable expense and reintroduce them into commerce as their own" (pages 5, 7-8).
- Any database law "should be predictable, simple, minimal, transparent and based on rough consensus" (page 6).
- The bill "must carefully define the protected interests and prohibited activities, so as to avoid unintended consequences" (page 6).
- "[A]ny effects on non-commercial research should be *de minimis*." (page 6).
- The prohibition against "extraction" or "use" is not "appropriate in the database context. As a policy matter we must weigh the need to protect database creators against the potential impact on scientific research in particular, and the dissemination of information within society generally" (page 7).
- "[A] simpler, more predictable legal schema would be produced by eliminating 'maintaining' [and 'organizing' and substituting 'collecting' for 'gathering'] and making it the sole basis for protected investment" (pages 23-24).
- "Congress should craft U.S. database protection to meet the needs of the American economy," rather than crafting legislation to meet the perceived requirements of the European Directive (page 32).

We also share the Administration's concerns (at 9) that the change from a requirement of "harm" to a requirement of "substantial harm" deserves careful consideration. We support such a change.

The Administration and the higher education associations have identified similar concerns with the concepts of "actual" and "potential" market. Compare Pincus Statement at 10 with Phelps' Testimony at 10-11. We also are concerned by the concept of "neighboring market," and suggest that the Subcommittee limit the focus of H.R. 354 to "the primary market" or "a primary market" for the database product.

We are considering with interest the suggestion by the Administration (at 12) suggesting the possibility of a notice system to warn users when a database producer is asserting protection under the law. We have not yet determined how such a notice system would work in this context, and what the effect of failure to include notice should be.

We are also considering the Administration's suggestions with respect to government-produced data. Our initial reaction is to agree that a database owner claiming protection should be obligated to identify the source of government-created data included in the database with sufficient detail that it may be easily found by the user.

We are concerned, however, by the Administration's suggestion that databases created by state universities and colleges should be subject to the same exclusion of protection as databases created by other governmental agencies. The higher education associations do not believe that the relationship between state universities and state governments is relevant to the policy questions of database ownership and protection. Both public and private universities need access to database information to support their research and teaching missions; this is the focus of the higher edu-

cation testimony presented by Provost Phelps. But it is also the case that universities, public and private, should be accorded the same appropriately crafted database protection that other database owners are granted when universities elect to market databases they have created. Public universities and colleges should not be placed at a disadvantage compared to their private counterparts. The relationship between certain state universities and state governments should not be used as a basis for an inappropriate policy outcome.

The higher education associations share the Administration's concern about *de facto* perpetual protection. Compare Pincus Statement at 24-27 with Phelps testimony at 15. We also agree with the suggestion (at 27) that a database proprietor who seeks protection for a database that has been protected in an earlier form for 15 years be required to make the older, unprotected, database available. We disagree, however, that this requirement be limited to newer databases that have "substantial elements in common" with their ancestor. If this condition is placed on the defense, a user will not be able to determine whether the defense is available. Further, the obligation to make the ancestor available will further the public's interest in the availability of information and may still be useful to the user. We also disagree with the suggestion (at 38) that the old database need not be "as available" as the new version. Congress should not invite those seeking expanded database protection to engage in a game of cat and mouse to the detriment of public access.

The higher education associations agree with the Administration's proposal (at 29-31) to harmonize the "additional reasonable uses" section with fair use law. We prefer, however, the implementation contained in the Phelps testimony (at 12-14) to the language offered by Mr. Pincus. We are particularly concerned that the language presented by Mr. Pincus retains the "individual act" limitation, which effectively nullifies the exception. We also continue to support a clear exception for non-profit educational, scientific and research activities such as that proposed at page 12 of the Phelps testimony.

We share the Administration's concern about non-competitive suppliers of database products. Compare Pincus Statement at 27-29 with Phelps testimony at 14-15. We agree that it is "important that any database protection legislation incorporate provisions that guard against the possibility that sole-source database providers will employ their new rights to the detriment of competition in related markets." Pincus Statement at 28. We also believe there is a real threat that the new-found protection could be exploited in a manner that leads to unreasonable costs for information products. Congress should not enact legislation that creates market-distorting power in the market for information products. Avoiding such a market impact is especially important with respect to database protection legislation, where the lack of a bright line between data and databases requires particular assurances that Constitutionally mandated access to information is preserved. We agree with the Administration that antitrust law alone is not sufficient to address this issue and believe a creative approach is necessary. We commend to the Subcommittee the approaches suggested at page 15 of the Phelps testimony and the recognition of a misuse defense suggested by Mr. Pincus (at 28).

In light of the uncertainties about the effect of the proposed legislation and the dynamic but uncertain evolution of the digital environment, we support Mr. Pincus' suggestion (at 34-35) that the bill provide for ongoing monitoring of the effects of the legislation. Although it is critical that database legislation be, from the outset, carefully crafted, specifically targeted and protective of core principles of information access, the studies proposed by the Administration will provide valuable opportunities for evaluation and review.

There are certain issues identified by the higher education associations in the Phelps testimony that are not addressed by the Administration. Without attempting to present an exhaustive list, these include issues such as the need for a clear definition of protected collections (Phelps testimony at 7-8), concerns with the standard of substantiality (Phelps testimony at 8-10), the need for a clear exception for non-profit activities (Phelps testimony at 11-12), the need to ensure that institutions that act as online service providers are not subjected to liability for the conduct of users of their systems (Phelps testimony at 15-16), and clarification of the provisions relating to monetary relief and criminal liability (Phelps testimony at 16-17). We believe our proposals to address these issues are fully consistent with the goals presented by the Administration.

We commend the Subcommittee for the open, deliberate, and thoughtful process you are employing to develop legislation governing the important, complicated issues concerning database protection. We appreciate this opportunity to comment on the Administration's proposals, and we look forward to continuing to work with

the Subcommittee to develop effective, balanced legislation governing database protection.

Sincerely

JOHN C. VAUGHN, *Executive Vice President.*

cc: Members of the Subcommittee



LIBRARY OF CONGRESS



0 007 122 876 9

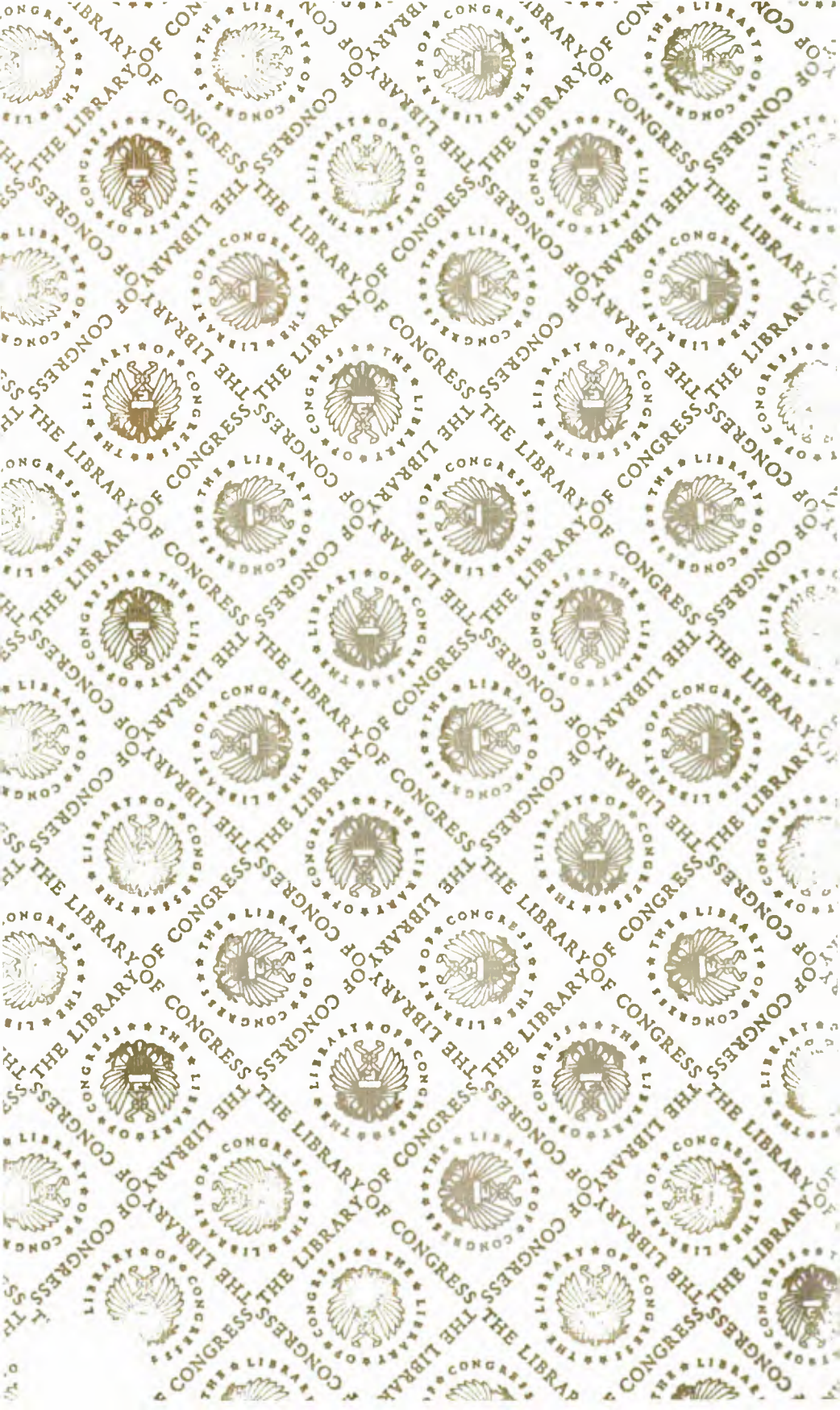
ISBN 0-16-060788-4



9 780160 607882

90000







HECKMAN

BINDERY, INC.

Bound-To-Please®

04-B0681

N. MANCHESTER, INDIANA 46962

LIBRARY OF CONGRESS



0 007 122 676 9